

**REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE
ON
THE REPORTS OF THE DIRECTOR OF AUDIT
ON
THE ACCOUNTS OF THE GOVERNMENT OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION
FOR THE YEAR ENDED
31 MARCH 2015
AND THE RESULTS OF
VALUE FOR MONEY AUDITS (Report No. 65)**

February 2016

P.A.C. Report No. 65

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Introduction

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

2. **Membership of the Committee** The following Members are appointed by the President under Rule 72(3) of the Rules of Procedure to serve on the Committee:

Chairman : Hon Abraham SHEK Lai-him, GBS, JP

Deputy Chairman : Hon Paul TSE Wai-chun, JP

Members : Hon CHAN Hak-kan, JP
Hon Alan LEONG Kah-kit, SC
Hon WONG Yuk-man
Hon NG Leung-sing, SBS, JP
Hon Kenneth LEUNG

Clerk : Anthony CHU

Legal Adviser : Timothy TSO

Procedure

The Committee's Procedure The practice and procedure, as determined by the Committee in accordance with Rule 72 of the Rules of Procedure, are as follows:

- (a) the public officers called before the Committee in accordance with Rule 72 of the Rules of Procedure, shall normally be the Controlling Officers of the Heads of Revenue or Expenditure to which the Director of Audit has referred in his Report except where the matter under consideration affects more than one such Head or involves a question of policy or of principle in which case the relevant Director of Bureau of the Government or other appropriate officers shall be called. Appearance before the Committee shall be a personal responsibility of the public officer called and whilst he may be accompanied by members of his staff to assist him with points of detail, the responsibility for the information or the production of records or documents required by the Committee shall rest with him alone;
- (b) where any matter referred to in the Director of Audit's Report on the accounts of the Government relates to the affairs of an organisation subvented by the Government, the person normally required to appear before the Committee shall be the Controlling Officer of the vote from which the relevant subvention has been paid, but the Committee shall not preclude the calling of a representative of the subvented body concerned where it is considered that such a representative could assist the Committee in its deliberations;
- (c) the Director of Audit and the Secretary for Financial Services and the Treasury shall be called upon to assist the Committee when Controlling Officers or other persons are providing information or explanations to the Committee;
- (d) the Committee shall take evidence from any parties outside the civil service and the subvented sector before making reference to them in a report;
- (e) the Committee shall not normally make recommendations on a case on the basis solely of the Director of Audit's presentation;
- (f) the Committee shall not allow written submissions from Controlling Officers other than as an adjunct to their personal appearance before the Committee; and

- (g) the Committee shall hold informal consultations with the Director of Audit from time to time, so that the Committee could suggest fruitful areas for value for money study by the Director of Audit.

2. **Confidentiality undertaking by members of the Committee** To enhance the integrity of the Committee and its work, members of the Public Accounts Committee have signed a confidentiality undertaking. Members agree that, in relation to the consideration of the Director of Audit's reports, they will not disclose any matter relating to the proceedings of the Committee that is classified as confidential, which shall include any evidence or documents presented to the Committee, and any information on discussions or deliberations at its meetings, other than at meetings held in public. Members also agree to take the necessary steps to prevent disclosure of such matter either before or after the Committee presents its report to the Council, unless the confidential classification has been removed by the Committee.

3. A copy of the Confidentiality Undertakings signed by members of the Committee has been uploaded onto the Legislative Council website.

4. **The Committee's Report** This Report by the Public Accounts Committee corresponds with the Reports of the Director of Audit on:

- the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2015; and
- the results of value for money audits (Report No. 65),

which were tabled in the Legislative Council on 18 November 2015. Value for money audits are conducted in accordance with the guidelines and procedures set out in the Paper on Scope of Government Audit in the Hong Kong Special Administrative Region - 'Value for Money Audits' which was tabled in the Provisional Legislative Council on 11 February 1998. A copy of the Paper is attached in **Appendix 2**.

5. In addition, this Report takes stock of the progress of the action taken by the Administration on the recommendations made in the Committee's Report Nos. 62, 63 and 63A and offers the Committee's views on the action taken. These are detailed in Parts 3, 4 and 5 of this Report.

Procedure

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

Laying of the Report Report No. 62 of the Director of Audit on the results of value for money audits was laid in the Legislative Council ("LegCo") on 16 April 2014. The Public Accounts Committee ("the Committee")'s Report (Report No. 62) was subsequently tabled on 9 July 2014, thereby meeting the requirement of Rule 72 of the Rules of Procedure of LegCo that the Report be tabled within three months of the Director of Audit's Report being laid.

2. **The Government Minute** The Government Minute in response to the Committee's Report No. 62 was laid in LegCo on 22 October 2014. A progress report on matters outstanding in the Government Minute was issued on 2 November 2015. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 7 below.

Planning, construction and redevelopment of public rental housing flats
(Chapter 1 of Part 4 of P.A.C. Report No. 62)

3. Hon Alan LEONG Kah-kit, Hon Kenneth LEUNG and Hon NG Leung-sing declared that they were former members of the Hong Kong Housing Authority.

4. The Committee was informed that:

Management of public rental housing ("PRH") construction projects

- the Hong Kong Housing Authority would continue to conduct its annual rolling five-year Budget and Forecast exercise and assess its medium term financial projections. On the long-term financial arrangement, the Government would seek approval of the LegCo Finance Committee for funding to support public housing development when it reached agreement with the Hong Kong Housing Authority on the quantum and timing of funding injection;

Redevelopment of PRH estates

- the Housing Department had conducted a review in order to prepare an implementation plan and assess the resource requirements for the next Comprehensive Structural Investigation Programme which was expected to start in 2018; and

Public Housing Construction Programme 2015-2016 to 2019-2020

- based on the latest projection of the Long Term Housing Strategy on the housing demand, the Government had adopted the total housing supply target of 480 000 units for the coming 10-year period from 2015-2016 to 2024-2025, among which the public housing supply target was 290 000 units (comprising 200 000 PRH units and 90 000 subsidized sale flats). According to the Hong Kong Housing Authority Building Committee paper of June 2015, the total public housing production for the five-year period from 2015-2016 to 2019-2020 would be 95 800 units, which fell short of the level of 290 000 units required by the Long Term Housing Strategy target for the ten-year period from 2015-2016 to 2024-2025. The Administration would put in extra efforts to make up the difference in the second five-year period (from 2020-2021 to 2024-2025).

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

Promoting the development of social enterprises
(Chapter 4 of Part 4 of P.A.C. Report No. 62)

6. The Committee was informed that:

Pilot scheme for priority bidding of selected government contracts by social enterprises ("SEs")

- the pilot scheme for priority bidding of selected government contracts by SEs had been completed and had achieved its purposes. The Home Affairs Bureau ("HAB") would inform the relevant LegCo Panel of the review outcome of the scheme in early 2016; as part of the update of the overall SEs development strategy; and

Accountability and performance management

- HAB and the Home Affairs Department had introduced appropriate performance indicators in their 2015-2016 Controlling Officers' Reports to reflect the progress made on SE promotion, including the number of SEs in Hong Kong and those established under the Enhancing Self-reliance Through District Partnership Programme.

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on the Results of Value for Money Audits [P.A.C. Report No. 62]

7. The Committee recommends that the outstanding issues be referred to LegCo Panel on Welfare Services for follow up.

Laying of the Report The Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year end 31 March 2014 and his Report No. 63 on the results of value for money audits were laid in the Legislative Council ("LegCo") on 20 November 2014. The Public Accounts Committee ("the Committee")'s Report (Report No. 63) was subsequently tabled on 11 February 2015, thereby meeting the requirement of Rule 72 of the Rules of Procedure of LegCo that the Report be tabled within three months of the Director of Audit's Report ("Audit Report") being laid.

2. **The Government Minute** The Government Minute in response to the Committee's Report No. 63 was laid in LegCo on 20 May 2015. A progress report on matters outstanding in the Government Minute was issued on 2 November 2015. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 31 below.

Administration of road safety measures

(Paragraphs 3 and 4 of Part 3 of P.A.C. Report No. 63)

3. The Committee was informed in the Government Minute which was laid before LegCo in May 2015 that:

Measures to tackle drink driving

- in view of the satisfactory result of a trial mobile breath test centre launched in end 2013, the Hong Kong Police Force ("HKPF") would set up three additional mobile breath test centres by 2017 for collection of the evidential breath specimen from drivers at the roadside. By then, the time interval between taking screening breath tests and evidential breath tests should be further reduced;

Measures to tackle speeding and red light jumping

- in exploring new measures to enhance the effectiveness of the present red light camera system, the Transport Department ("TD") had considered the option of taking frontal photo of offending vehicles as recommended by the Audit Commission ("Audit"). Upon the advice of the Privacy Commissioner for Personal Data, TD had engaged a consultant to conduct a privacy impact assessment to see whether the option could comply with the Personal Data (Privacy) Ordinance

(Cap. 486). The privacy impact assessment was now underway and both TD and HKPF would study the outcome before deciding the way forward for using frontal cameras;

Measures to promote safer vehicle operation

- *public light buses ("PLBs")* In April 2012, the Road Traffic Ordinance (Cap. 374) was amended to introduce measures to deter speeding by PLB drivers and enhance safe operation of PLBs. Three of such measures came into effect after the amendment legislation was passed by LegCo in April 2012. Another measure, i.e. the mandatory requirement for the installation of approved electronic data recording device on newly registered PLBs, came into effect on 1 December 2014. The remaining measure, i.e. requiring applicants for PLB driving licences to complete a pre-service course before they were issued with PLB driving licences, became effective on 1 June 2015;
- *for all drivers* In light of the advice of the Department of Justice, TD would, having regard to individual circumstances of the case, approach the medical practitioner(s) concerned to request medical records when there was a need to ascertain whether a suspected health-impaired driver was fit for driving and where consent from the driver for TD to access his medical records was not forthcoming; and

Accuracy of traffic accident data

- HKPF had made some improvements to the Traffic Operations and Management System to improve the accuracy of accident contributory factors input to the System. HKPF would further upgrade the System to enhance its compatibility with TD's Transport Information System so as to further minimize data input errors.

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

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

(Paragraphs 8 to 10 of Part 5 of P.A.C. Report No. 63)

5. The Committee was informed that:

- the Government had continued to urge the United Nations High Commissioner for Refugees ("UNHCR") to make renewed efforts to appeal to the international community for donations with a view to settling the outstanding advances, which remained at \$1,162 million;
- the Security Bureau wrote to the Hong Kong Sub-office of UNHCR in July 2015 again to reiterate the Government's stance and register the Hong Kong community's expectation of an early recovery of the outstanding advances; and
- although it was not optimistic that repayment could be made by UNHCR in the near future, the Government would continue to pursue an early repayment of the outstanding advances from UNHCR.

6. The Committee wishes to be kept informed of the development on the Government's recovery of the outstanding advances to UNHCR.

Footbridge connections between five commercial buildings in the Central District

(Paragraphs 11 to 13 of Part 5 of P.A.C. Report No. 63)

7. The Committee was informed that in late July 2015, the owner of Building II submitted a general building plan in respect of the proposed Footbridge A to the Buildings Department for approval pursuant to requirements under the Buildings Ordinance (Cap. 123). In processing the application, the Buildings Department had, in accordance with the centralized processing system for building plans, referred the plan to relevant government departments, including the District Lands Office/Hong Kong West and South of the Lands Department ("LandsD"), for consideration of matters in their respective areas of concern or under their purview. The Buildings Department, LandsD and other concerned departments would continue to follow up with the owners of Building I and Building II on the matter.

8. The location of the proposed Footbridge A is shown in *Appendix 3*.

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

Small house grants in the New Territories

(Paragraphs 14 to 17 of Part 5 of P.A.C. Report No. 63)

10. Hon Paul TSE Wai-chun declared that he was an indigenous villager of the New Territories.

11. The Committee was informed in the Government Minute which was laid before LegCo in May 2015 that:

- the existing small house policy had been in operation for a long period of time. The relevant review would inevitably entail complex issues including legal, environment and land use planning issues which required careful examination; and
- at the same time, the Administration would maintain dialogue with key stakeholders as well as the community at large.

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

Direct land grants to private sports clubs at nil or nominal premium

(Paragraphs 38 to 40 of Part 5 of P.A.C. Report No. 63)

13. Hon Abraham SHEK Lai-him declared that he was a member of Hong Kong Country Club, Hong Kong Football Club, Hong Kong Golf Club, Hong Kong Jockey Club ("HKJC") and Royal Hong Kong Yacht Club; Hon Paul TSE Wai-chun declared that he was a member of HKJC, Scout Association of Hong Kong and South China Athletic Association; Hon Alan LEONG Kah-kit declared that he was a member of HKJC; Hon NG Leung-sing declared that he was a member of HKJC and Craignower Cricket Club; Hon CHAN Hak-kan declared that he was a member of

HKJC; and Hon Kenneth LEUNG declared that he was a member of the Ladies Recreation Club and Craigengower Cricket Club.

14. The Committee was informed that:

Review of the Private Recreational Lease ("PRL") policy

- an inter-departmental working group had been set up by the Home Affairs Bureau ("HAB") in mid-2014 to conduct a review of PRL policy. HAB was finalizing the recommendations. The Government proposed to brief LegCo Panel on Home Affairs on the review findings in the second quarter of 2016;

Implementation of the "opening-up" requirement

- HAB would continue to advertise the availability of sports facilities operated by PRL holders to encourage outside bodies to make use of the facilities;

Monitoring of compliance with lease conditions

- HAB was monitoring the utilization rates of sports facilities on PRL sites, in particular with regard to the implementation of the opening-up schemes, and had started annual inspections of each PRL site to ensure compliance by PRL holders with the opening-up schemes; and
- LandsD, in consultation with HAB and other relevant bureaux and departments, continued to follow up on cases of irregularity and suspected non-compliance with lease conditions identified in the Audit Report and would take lease enforcement action as appropriate. LandsD had also conducted site inspections of PRLs where lease renewal was not yet due and would follow up in consultation with HAB as appropriate.

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

Management of roadside skips

(Paragraphs 41 to 43 of Part 5 of P.A.C. Report No. 63)

16. The Committee was informed that:

Magnitude of skip problem

- the Joint Working Group on Management of Roadside Skips ("JWG"), led by the Environment Bureau/Environmental Protection Department and supported by the Development Bureau ("DEVB"), the Transport and Housing Bureau ("THB"), the Food and Environmental Hygiene Department, the Home Affairs Department, HKPF, the Highways Department ("HyD"), LandsD and TD, completed the review of the problems caused by roadside skips and the effectiveness of the existing enforcement actions on roadside skips taken by LandsD and HKPF. JWG found that the main reason of placement of skips on the roads and in public places in the territory was due to a lack of proper storage locations, in particular during the night time;

Strategies and action plans for regulating and facilitating skip operations

- in light of the above findings, Secretary for the Environment, Secretary for Development and Secretary for Transport and Housing agreed to a two-pronged approach in tackling the problems caused by placing of skips at the roadside or in public places in the short term, by finding suitable sites which satisfy site accessibility, land use and other relevant requirements for storing skips, as well as enhancing the enforcement efficiency to reduce malpractices on placement of road skips;
- JWG was actively pursuing the preparatory work with a view to introducing in 2016 the measures proposed under its two-pronged approach so as to better regulate and facilitate the operation of roadside skips;

Introduction of regulatory system

- the Government would, having regard to the effectiveness of the measures to be introduced in 2016, consider the need for introducing other institutionalized measures in the longer term, e.g. a regulatory

system or assigning a government department to take up the responsibilities for regulating and facilitating skip operations; and

Progress made in implementing Audit's recommendations

- follow-up actions had been on-going to address the following two remaining audit recommendations:
 - (a) formulating strategies and action plans for regulating and facilitating skip operations, and assigning a government department to take up the responsibilities for regulating and facilitating skip operations; and
 - (b) conducting a review to reassess whether the current situation justified government actions to introduce a regulatory system to regulate and facilitate skip operations.

17. The Committee wrote to Chief Secretary for Administration on 8 January 2016 to urge the Administration to expeditiously regulate the operations of skips so as to safeguard the safety of the public. The Committee also enquired details of latest enforcement actions of HKPF and LandsD against "idling" skips on roadside, which government bureau(x)/department(s) would take up the responsibilities for regulating and facilitating skip operations, and details of strategies and action plans for regulating and facilitating skip operations. The replies from Director of Environmental Protection in *Appendix 4*.

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

Provision of long-term care services for the elderly
(Chapter 1 of Part 8 of P.A.C. Report No. 63)

19. The Committee was informed that:

- the Government would continue to adopt a multi-pronged approach to provide some 1 700 new subsidized residential care places from 2014-2015 to 2017-2018 and some 330 new subsidized day care places till 2016-2017. The Social Welfare Department ("SWD") had also

earmarked a total of 13 sites for construction of residential care homes for the elderly ("RCHes"), day care units attached to contract RCHes and day care centres for the elderly; and

- insofar as enhancing community care services ("CCS") to support ageing in place was concerned, SWD would continue to implement the Pilot Scheme on Community Care Services Voucher for the Elderly. SWD had taken into account the waiting time and service demand of individual districts in deciding the distribution of CCS places. SWD would also make use of cross-district arrangement to flexibly increase day care places in those districts with longer waiting time. For example, through expansion of an existing day care centres for the elderly in Wan Chai in October 2015, the additional 58 day care places would serve the elderly persons living in Wan Chai and Eastern districts. An additional 1 666 Enhanced Home and Community Care Services places had been in full operation by end-June 2015. SWD was exploring the feasibility and form of integrating Integrated Home Care Services with Enhanced Home and Community Care Services, taking into consideration the various new CCS initiatives being piloted and the fact that Integrated Home Care Services included both ordinary and frail cases while Enhanced Home and Community Care Services covered only frail cases.

20. The Committee recommends that the outstanding issues be referred to LegCo Panel on Welfare Services for follow up.

Provision of health services for the elderly
(Chapter 2 of Part 8 of P.A.C. Report No. 63)

21. The Committee was informed that:

Elderly health assessment services of the Department of Health ("DH")

- with the commissioning of one new clinical team in the Lek Yuen Elderly Health Centres ("EHC") in March 2015 and the introduction of various improvement measures, including the conduct of extra health assessments at EHCs with lower attendance for curative treatment and increasing the proportion of first-time assessments in all EHCs, the overall median waiting time for first-time health assessments had been

reduced from 20.1 months in 2014 to 17.4 months in 2015 (as of July). Another new clinical team in the Wan Chai EHC would be established in 2016 and the overall waiting time was expected to further improve. DH would closely monitor the waiting time of all EHCs and would explore the feasibility of setting a performance pledge for the waiting time for the elderly who wished to enroll for EHC membership and first-time health assessment. EHCs' services would also be reviewed taking into account the experience from the Elderly Health Care Voucher Scheme ("EHCVS") and the Elderly Health Assessment Pilot Programme;

- the two-year Elderly Health Assessment Pilot Programme ended in July 2015, with participation of over 7 900 elders. DH had commissioned a research organization to evaluate the implementation of the Elderly Health Assessment Pilot Programme. The Government proposed to report the findings of the evaluation to LegCo Panel on Health Services in the first quarter of 2016;

Educational and advisory health services provided by visiting health teams of DH

- DH had completed a review of the educational and advisory health services provided by the visiting health teams. Various measures to improve the efficiency of the visiting health teams had been/were being implemented, which included reviewing the operational guidelines to standardize the procedures, collecting statistics regularly to monitor the frequency of health promotion activities conducted at each RCHE and non-RCHE, formulating service strategy and priorities, and adopting a risk-based approach for the health record review programme at the RCHEs;

Administration of DH's EHCVS

- DH continued to promote EHCVS to attract more healthcare service providers to join. A comprehensive review of EHCVS would soon commence, covering the monitoring protocol and inspection strategy;

Waiting time for Specialist Out-patient Clinic ("SOPC") consultation

- the Hospital Authority ("HA") had implemented a number of measures to shorten the waiting time for SOPCs, including enhancing public

primary care service, enhancing manpower, exploring the possibility of launching Public-Private Partnership projects, implementing annual plan programmes to manage SOPC waiting time, displaying updated waiting time information in SOPCs and on HA's website, strengthening the cross-cluster referral arrangement and optimizing the scheduling of appointment. HA would monitor the effectiveness of these measures and implemented suitable supplementary measures as appropriate to shorten the waiting time in SOPCs further. On the other hand, a comprehensive review of the appointment scheduling practices of SOPCs was being conducted; and

Community Geriatric Assessment Teams

- HA had enhanced the Community Geriatric Assessment Team services to better cover RCHE residents. In particular, enhanced support had been provided to the terminally ill residents living in RCHEs to improve the quality of end-of-life care. HA would regularly assess the Community Geriatric Assessment Team coverage and would take into consideration the service demand and healthcare manpower when planning the service. HA would consider further service development as appropriate through the annual planning exercise in 2016-2017 and beyond to meet the needs, particularly in areas where there were expansion of RCHEs.

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

New Civil Aviation Department Headquarters

(Chapter 3 of Part 8 of P.A.C. Report No. 63)

23. The Committee was informed that regarding the review report of the Director-General of Civil Aviation on the irregularities on the implementation of the new Civil Aviation Department ("CAD") headquarters project, THB was carrying out detailed examination to verify and review all pertinent facts and causes giving rise to the irregularities from various perspectives. In addition to examining the Director-General of Civil Aviation's review report and supplementary information provided by CAD, THB officers had visited CAD office to inspect relevant files and records and might also seek further input from relevant departments, as appropriate. THB aimed to complete the investigation as soon as possible, with a view to

establishing responsibilities for various irregularities. In case of any misconduct, THB would follow up in accordance with the established procedures, including taking appropriate administrative or disciplinary action.

24. The Committee wrote to Secretary for Transport and Housing on 8 January 2016 to enquire about the progress of the investigation conducted by THB regarding the irregularities on the implementation of the new CAD headquarters project, and when the investigation would be completed and the results released to the public. The replies from Secretary for Transport and Housing are in ***Appendix 5***.

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

Government's efforts in enhancing tree safety
(Chapter 5 of Part 8 of P.A.C. Report No. 63)

26. The Committee was informed that:

Coordinating the work of tree management departments

Delineation of management responsibilities for roadside trees

- DEVB had reviewed the policy considerations on roadside tree maintenance and was working with the relevant departments to enhance the maintenance for roadside trees on unallocated government land towards a regular maintenance regime;

Maintenance of roadside trees on unallocated government land

- the tree inspection work was started in December 2013 and was in progress. LandsD would endeavour to expedite action to complete it in 2016-2017;

Management information systems and databases

Tree Management Information System

- the Tree Management Information System enhancement project had been launched since November 2014 for completion in November 2015. Among others, the project would tackle the system development issues encountered previously. Upon completion of the enhancement project, the Tree Management Office would consider how to put the complaint handling function to effective use;

Tree Register

- a review of the Tree Register had been conducted. It was found that the Tree Register had been generally well patronized and information on trees under monitoring in various districts had been adequately provided. The original PDF files of the Tree Register had been replaced by a format with searchable fields such as districts, management departments, and locations of trees since September 2015;

Way forward

Addressing safety risks of trees on private land

- the Tree Management Office had prepared a draft Handbook on Tree Maintenance for private property owners and was consulting relevant parties on their views. Upon its issuance, DEVB would invite the Home Affairs Department to incorporate the Handbook into the Code of Practice issued under the Building Management Ordinance (Cap. 344);
- the Tree Management Office had also been working closely with the Home Affairs Department and professional institutions to organize seminars for private property owners and property management personnel on proper tree management; and
- DEVB would continue to keep LegCo Panel on Development informed of the progress in the implementation of tree management policy.

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

Provision of cycle track network in the New Territories

(Chapter 7 of Part 8 of P.A.C. Report No. 63)

28. The Committee was informed that:

Implementation of New Territories Cycle Track Network

- on 22 July 2015, DEVB and the Civil Engineering and Development Department ("CEDD") provided LegCo Panel on Development with the updated overall progress of the New Territories Cycle Track Network and the estimated cost of the works of Sheung Shui to Tuen Mun section Stage 2. CEDD also obtained support from LegCo Panel on Development on 22 July 2015 on the works of Sheung Shui to Tuen Mun section Stage 2. CEDD would seek funding approval for the works in due course;
- for Section D, in view of the major physical and environmental constraints associated with the Yuen Long to Nam Sang Wai section, the Ma On Shan to Sai Kung section, the Tuen Mun to Lung Kwu Tan section, and the Tai Wo section, CEDD had deleted these branching off sections after reporting to the relevant District Councils. As for the planning and design of the branching off section at Sam Mun Tsai and the resting station at Tai Wo, CEDD consulted the Traffic and Transport Committee of Tai Po District Council on 10 July 2015 and obtained their support on the proposed cycle track alignment of the Sam Mun Tsai section. In view of the reservation expressed by Tai Po District Council on the need of the resting station at Tai Wo, CEDD would conduct a review and consult Tai Po District Council again upon completion of the review;

Works contract management

- CEDD's review on the feasibility of widening the cycle-track sections with a width of less than 3.5 m along Ma On Shan to Sheung Shui Section and Sheung Shui to Tuen Mun section was still on-going, which should be completed in 2015;

- CEDD had incorporated the requirement to properly document the justifications for adjusting the scope of a project in the Project Administration Handbook;
- TD had completed the collection of relevant information of narrow cycle-track sections and was reviewing if there were any critical sections where improvement measures, such as additional traffic signs, road markings or ancillary street furniture, were warranted;

Traffic management and maintenance of cycle tracks

- in July 2015, TD issued works requests for all Phase 2 improvement works to HyD and HyD had targeted to complete the works in 2016; and
- TD was reviewing whether some mandatory dismount zones at existing cycle tracks could be lifted or replaced by advisory ones. The review was targeted to be completed by end 2015. Upon completing the review of the mandatory dismount zones on existing cycle tracks, TD would collaborate with HKPF to review cyclists' compliance with the mandatory dismount requirement with a view to exploring measures to increase compliance as appropriate.

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

Services provided by the Government Laboratory

(Chapter 8 of Part 8 of P.A.C. Report No. 63)

30. The Committee was informed that:

Provision of laboratory services to user bureaux and departments

- the Government Laboratory ("GL") continued to review its performance targets with a view to improving the dissemination of information on its performance. Two sample information management systems had been enhanced and the relevant information was now more readily available for the management of GL. GL might further modify the systems after the completion of the review;

- regarding liaison with clients, GL had discussed the issue of amplifying the existing memoranda of understanding ("MOUs") with HKPF and the Customs and Excise Department ("C&ED"), which had signed MOUs with GL. While updating the current MOU with C&ED was considered not necessary, amplification of MOU with HKPF would be required. GL had also consulted its major clients, who were of the view that the current work arrangements with GL were adequate and there was no pressing need to sign MOU with GL. GL would continue to keep in touch with its major clients to ascertain their service needs;

Outsourcing of laboratory services

- GL conducted a post-implementation review on the outsourcing of laboratory services in August 2015. It was considered that the outsourcing exercise had enabled effective use of resources in GL to meet food safety challenges; and

Management of chemicals, samples, exhibits and equipment

- GL had issued checklists for store management for use by the Supplies and User Sections to ensure stock records were kept in accordance with the Stores and Procurement Regulations. GL had also issued guidance notes on regular stocktaking and monitoring of stock levels. In addition, GL planned to develop a new computer system integrating management and administration systems for sectional budget control, purchasing request and ordering processes. The new system would also include stock management functions such as the indication of stock levels and expired chemicals.

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

Laying of the Report Report No. 63 of the Director of Audit on the results of value for money audits was laid in the Legislative Council ("LegCo") on 20 November 2014. The Public Accounts Committee ("the Committee")'s supplemental report (Report No. 63A) on Chapter 4 of the Director of Audit's Report was tabled on 3 June 2015.

2. **The Government Minute** The Government Minute in response to the Committee's Report No. 63A was laid in LegCo on 28 October 2015. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 5 below.

Administration of the air traffic control and related services
(Part 4 of P.A.C. Report No. 63A)

3. The Committee was informed in the Government Minute which was laid before LegCo in October 2015 that:

Procurement and implementation of the new air traffic control ("ATC") system project

- CAD had urged the Air Traffic Management System ("ATMS") contractor to expedite action on rectifying the outstanding observations in ATMS and to closely monitor the remaining work through enhanced communication and supervision to ensure minimum possibility of project delay. The enhanced measures included: establishment of a steering committee on the new ATMS project chaired by Deputy Director-General of Civil Aviation to oversee the implementation of the project and provide steer and advice; submission of regular progress reports, staff resources plans, and rectification plans by the contractor; and weekly teleconference between CAD and the contractor's senior management to closely monitor and supervise the work progress of the contractor;
- after implementing the enhancement measures above, CAD was satisfied with the progress of the ATMS contract. All the acceptance test events of the new ATMS had been conducted in accordance with the requirements specified in the contract (including the Site Acceptance Tests, Flight Check Acceptance Tests, Reliability Acceptance Tests and System Integration Tests), in order to ensure that the system operation complied with the contract conditions and CAD's

safety requirements. Up to then, CAD had generally been satisfied with the test results. For some follow-up items of the system to be addressed, CAD, together with the contractor, had come up with a timetable to address them gradually;

- CAD had commenced training for the ATC operational staff and performing an overall safety assessment on the training of the ATC operational staff, operational procedures, transition activities of the new ATC systems, etc. to ensure compliance with the stringent aviation safety requirements set by the International Civil Aviation Organization. In view of the current progress, the new ATC system would be ready for operation in the first half of 2016. CAD would ensure that the ATC system and operational staff were both ready before commissioning the new system;
- Secretary for Transport and Housing had appointed an independent overseas consultant from the United Kingdom to advise him whether the new ATC system and the operational staff were completely ready before the new system could be commissioned;
- CAD had stepped up efforts to enhance maintenance measures to address surveillance data display problems in the existing ATC system. Through a one-off enhancement measure for the existing ATMS conducted in 2014, including upgrading the relevant surveillance data display workstations and optimizing radar signal inputs to reduce the system loading, the number of surveillance data display problems had a prominent downward trend and continuously fell well within the margin of the safety performance indicator;
- CAD had formulated a contingency plan to ensure the existing system could continuously provide a safe, reliable and stable ATC service;
- CAD had updated the Departmental Project Procedures Handbook, making reference to the recommendations of the Audit Commission ("Audit") and the Committee. CAD had reminded project officers to comply with the guidance specified in the Handbook, such as to
 - (a) remind project officers to ensure that the terms and conditions of the tenders should be interpreted in a fair manner, and any terms with interpretation which might appear to depart from a literal and plain meaning should be made known to all potential

tenderers during the tender invitation as far as practicable in future procurement; and

- (b) consider factors such as international standards/requirements, aviation safety, operational needs and cost-effectiveness before determining whether and when an enhancement to ATMS should be made;
- CAD would update LegCo and/or obtain the Finance Committee's approval, where applicable, in future for any subsequent substantial variations in its approved funding proposals, in addition to strict compliance with the relevant requirements and procedures as specified in the Stores and Procurement Regulations and Agreement on Government Procurement of the World Trade Organization, as well as seeking timely advice from the Government Logistics Department and the Department of Justice to ensure fairness and impartiality;
- the Transport and Housing Bureau ("THB") received regular project update from CAD and provided policy advice to CAD. Secretary for Transport and Housing had asked Director-General of Civil Aviation to expedite actions to handle the remaining follow-up work with the ATMS contractor and arrange training and transition activities for the ATC operational staff, while ensuring the safe and stable operation of the system, such that the new ATC system could transit smoothly and was ready for operation in the first half of 2016. THB and CAD would provide timely updates to LegCo Panel on Economic Development on the progress of new ATC system project;

Management of the precision runway monitor project

- CAD had set up mechanisms and updated the Departmental Project Procedures Handbook to incorporate the recommendations of Audit on records keeping, funding application, and project appraisal. In future, sufficient information regarding the pros and cons of the proposed project, including any intrinsic potential risks, should be provided in the funding applications to LegCo to facilitate the making of informed decisions on whether or not to support the project. In addition, CAD had issued an internal circular to remind project officers about the changes to the Departmental Project Procedures Handbook, in particular the requirement to keep records of major and significant procurement decisions for public accountability;

Administration of ATC service related charges

- CAD had re-examined the level of the en-route navigation charge rate. With the approval already given by THB and the Financial Services and the Treasury Bureau on the revised rate, CAD had consulted the industry. The revised rate was implemented on 1 October 2015. Having taken into account the recommendations of Audit and the Committee, CAD would conduct a review after implementing the en-route navigation charge level recommended in each fees and charges review to ensure that the charge level was conducive to achieving full-cost recovery and adhering to the Government's "user pays" principle;
- CAD had taken follow-up actions to prevent the loss of revenue, including demanding banker's guarantees from operators with unsatisfactory en-route navigation charge payment records, reminding the airline operators of their contractual obligation to pay en-route navigation charge and taking legal actions against defaulting airline operators as appropriate;

Administration of the mandatory occurrence reporting scheme

- CAD had strengthened the management of the mandatory occurrence report database and implemented measures to closely monitor the reporting of the mandatory occurrence report, assignment of risk level to each mandatory occurrence report, implementation of follow-up actions and case closure, and timely updating of the mandatory occurrence report; and

Way forward

- to ensure that the administrative management, resource planning, liaison and coordination work involved could be conducted effectively, the Government would consider allocating additional resources to strengthen the senior management of CAD.

4. The Committee wrote to Secretary for Transport and Housing on 8 and 13 January 2016 to enquire about the progress of the remaining contract of the new ATC system project; the progress of the work plan of transition of the existing ATMS to the new ATMS; whether the Administration had received any claims from the ATMS contractor regarding the ATMS project; whether the Administration had

any plan to follow up with the ATMS contractor on the project delay; and whether ATMS had the deficiency as described in a media report on 11 January 2016 that it could not provide operational controllers with real time updates of the aircraft positions in a timely manner and its implications for the safety of ATMS. The replies from Secretary for Transport and Housing are in ***Appendix 5***.

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

Consideration of the Director of Audit's Report tabled in the Legislative Council on 18 November 2015 As in previous years, the Committee did not consider it necessary to investigate in detail every observation contained in the Director of Audit's Report. The Committee has therefore only selected those chapters in the Director of Audit's Report No. 65 which, in its view, referred to more serious irregularities or shortcomings. It is the investigation of those chapters which constitutes the bulk of this Report.

2. **Meetings** The Committee held a total of 11 meetings and eight public hearings in respect of the subjects covered in this Report. During the public hearings, the Committee heard evidence from a total of 47 witnesses, including three Directors of Bureau and nine Heads of Department. The names of the witnesses are listed in *Appendix 6* to this Report.

3. **Arrangement of the Report** The evidence of the witnesses who appeared before the Committee, and the Committee's specific conclusions and recommendations, based on the evidence and on its deliberations on the relevant chapters of the Director of Audit's Report, are set out in Chapters 1 to 4 of Part 8 below.

4. The video and audio record of the proceedings of the Committee's public hearing is available on the Legislative Council website.

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

*Observations of the Public Accounts Committee on the Report of the Director of Audit on the
Accounts of the Government of the Hong Kong Special Administrative Region
for the year ended 31 March 2015*

The Committee noted that the following new information has been included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2015 with a view to increasing transparency as follows:

- a new disclosure for outstanding commitments (i.e. approved project estimates less actual expenditure) has been included in the Cash-based Accounts for 2015, with comparative figures for 2014 (Note 13);

Cash-based Consolidated Account	2015	2014	Decrease
Commitments	\$417.1 billion	\$462.0 billion	\$44.9 billion

and

- a note has been introduced to the Cash-based Consolidated Account to disclose the \$27.49 billion income from the investments with the Exchange Fund for the calendar year 2014, which was set aside and retained within the Exchange Fund as provision for Housing Reserve and not paid to the Government pursuant to the Financial Secretary's directive in December 2014. The Housing Reserve is to provide financial resources to meet the 10-year public housing supply target. Accordingly, the amount had not been recognized as revenue in the accounts of the Government for the year ended 31 March 2015 (Note 3).

Cash-based Consolidated Account	2015	2014	Increase
Investments with the Exchange Fund: Investments	\$838.2 billion	\$766.9 billion	\$71.3 billion

A. Introduction

The Audit Commission ("Audit") conducted a review to examine the Government's efforts in managing municipal solid waste ("MSW").

Background

2. MSW¹, commonly called "trash" or "garbage", includes wastes such as durable goods (e.g. tyres, furniture), nondurable goods (e.g. newspapers, plastic plates/cups), containers and packaging (e.g. milk cartons, plastic wrap), and other wastes (e.g. yard waste, food waste²). It comprises solid waste from households, commercial and industrial ("C&I") sources, but excludes construction and demolition waste, chemical waste and other special waste. The most common items disposed of as MSW are paper, food, plastics and metals.

3. In 2014, Hong Kong, with a population of 7.27 million, produced 5.62 million tonnes of MSW. Out of the 5.62 million tonnes of MSW, 3.57 million tonnes (63%) were disposed of at landfills and the remaining 2.05 million tonnes (37%) were recovered for recycling. Compared to the published statistics in 2010, MSW quantity disposed of at landfills had increased by 7.2% from 3.33 million tonnes in 2010 to 3.57 million tonnes in 2014, and MSW recovery rate had decreased from 52% to 37%. Subject to the Legislative Council ("LegCo") Finance Committee ("FC")'s funding approval for West New Territories Landfill extension works and after completing the approved and proposed extension works for the other two landfills, namely, Southeast New Territories Landfill and Northeast New Territories Landfill, the existing three landfills in Hong Kong would reach their capacities from 2023 to 2034.

4. As the executive arm of the Environment Bureau ("ENB"), the Environmental Protection Department ("EPD") is responsible for implementing waste management policies and strategies.

1 Hong Kong generates several types of solid waste. It includes MSW, which comes from domestic, commercial and industrial sources; construction waste, which arises from construction, renovation and demolition activities; and other special wastes such as chemical waste and livestock waste. In 2014, a total of 5.42 million tonnes of waste were disposed at landfills, of which 66% (3.57 million tonnes) were MSW.

2 Please see Chapter 2 of Part 8 of this Report for "Reduction and recycling of food waste".

5. In December 2005, 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 minimization; 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 ("the 2011 Review"). In May 2013, 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 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.

6. 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 2014-2015, the estimated recurrent expenditure of 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.

The Committee's Report

7. The Committee's Report sets out the evidence gathered from witnesses. The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 9);
- Reduction in municipal solid waste (Part B) (paragraphs 10 to 31);
- Recovery of municipal solid waste (Part C) (paragraphs 32 to 43);
- Recycling of municipal solid waste (Part D) (paragraph 44);
- Treatment and disposal of municipal solid waste (Part E) (paragraphs 45 to 58);
- Way forward (Part F) (paragraphs 59 to 61); and
- Conclusions and recommendations (Part G) (paragraphs 62 to 64).

Public hearings

8. The Committee held two public hearings on 7 and 29 December 2015 to receive evidence on the findings and observations of the Director of Audit's Report ("Audit Report").

Opening statement by the Acting Secretary for the Environment

9. **Ms Christine LOH Kung-wai, Acting Secretary for the Environment**, made an opening statement at the beginning of the Committee's first public hearing held on 7 December 2015, the summary of which is as follows:

- reducing the per-capita-per-day MSW disposal was the key objective of the 2013 Blueprint. There were many areas in the 2013 Blueprint that were a continuation from the 2005 Policy Framework, but there were also areas of departure. A major point of departure was the adoption of a single target to reduce per-capita-per-day MSW disposal because this was the most pertinent objective;
- if the per-capita-per-day perspective was used to look at how Hong Kong had done since 2005, the per-capita-per-day MSW disposal in 2014 was 1.35 kg, showing a slight decrease as compared to 1.38 kg in 2005;
- as pointed out in the Audit Report, the MSW recovery rate increased from 43% in 2005 to 52% in 2010, but then dropped significantly to 37% in 2013. In fact, the Administration noticed in 2012 major fluctuations in the domestic-export statistics on recyclable plastics. The Administration took the initiative to commission an independent consultant in late 2012 to undertake a study to look into this. The study concluded that the current methodology used was the most appropriate approach for Hong Kong as a free trading port. In response to the consultant's recommendations, EPD, the Census and Statistics Department ("C&SD") and the Customs and Excise Department ("C&ED") had taken improvement measures;
- the Administration shared the concern raised in the Audit Report about the implementation progress of the producer responsibility schemes ("PR schemes") and MSW charging scheme. The Audit Report set out the reasons for the longer-than-expected time required, particularly

the fact that each scheme had to go through comprehensive public consultation and stringent legislative vetting procedures;

- the development of the EcoPark was one of the Government's key measures to support the local environmental industry. Since 2012, 10 tenants at EcoPark had successively commenced operation. Two tenants were taking forward the planning and construction of their plants, while another had finished construction and machine installation and was ready for trial runs;
- when estimating the time for landfills reaching design capacity, the Government would take account of factors such as historical trends of waste disposal and projections of population growth. That said, EPD would take on board Audit's recommendation that when submitting future funding applications, EPD should make every effort to provide LegCo with the basic assumptions and quantifiable information used in estimating the remaining serviceable lives of landfills;
- the Administration commenced a long-term planning study on waste disposal infrastructure in September 2015. Based on the concepts of achieving a circular economy and building a smart city, the study would identify the additional strategic and regional facilities required in Hong Kong for bulk transfer and disposal of MSW, with a view to reducing the reliance on landfills and achieving sustainable development in the long run; and
- the Administration would continue to actively take forward the measures set out in the 2013 Blueprint, and would strengthen its efforts to clearly publicize the significant landfill problem. While the Administration was fully aware of citizens' aspirations for a quality environment, the Administration had to drive behavioural changes within the community to reduce waste at source and enhance participation in waste recovery. The Administration would endeavour to formulate waste management policies from new perspectives, and would collaborate with LegCo and every sector in society to ensure their smooth implementation, with a view to building a better living environment.

The full text of Acting Secretary for the Environment's opening statement is in *Appendix 7*.

B. Reduction in municipal solid waste

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

10. According to paragraph 2.8 (b) of the Audit Report, EPD conducted annual waste recovery surveys to obtain related statistics for locally-generated recyclables recovered for local use. The Committee asked how these surveys were conducted, and about the Administration's views on the accuracy and reliability of the data gathered by using these surveys in estimating the quantities of locally-generated MSW recovered for local use.

11. **Mr George NG Wai-wah, Senior Statistician of EPD**, said at the public hearing and **Ms Anissa WONG Sean-ye, Director of Environmental Protection**, explained in her letter dated 21 December 2015 (*Appendix 8*) that:

- for quantity of waste disposal, EPD obtained the relevant statistics compiled based on weighbridge data recorded at entrances of waste treatment facilities, supplemented by data obtained from the Waste Composition Survey on the composition of waste disposed of at landfills by waste type;
- for quantity of waste recovered, there was no environmental legislation at present mandating the recording and declaration of the quantities of general recyclables collected and processed by the recycling businesses. Therefore, EPD compiled the statistics based on domestic-exports statistics of recyclables which measured the quantities of locally-generated recyclables exported for recycling outside Hong Kong. These statistics were supplemented by data obtained from the Waste Recovery Survey ("WRS") which measured the quantities of locally-generated wastes recycled locally into recycled products. There was no overlapping in these two sets of data;
- EPD commissioned a survey contractor every year to conduct the annual WRS with the following major operation features:
 - (a) WRS questionnaire was designed in a way to ensure that the quantities of locally-generated recyclables recycled locally into final recycled products could be accurately captured;

- (b) prior to data collection, frontline field interviewers received appropriate training in the presence of EPD's officers;
 - (c) the WRS contractor performed telephone/face-to-face interviews using a well-structured questionnaire to obtain the required recovery data from companies in the recycling industry. Each interview took about 30 minutes;
 - (d) in completing the survey, about 1 500 companies were interviewed. These companies were from the full listing of companies in the local recycling industry updated annually based on the latest Central Register of Establishments maintained by C&SD. The listing was supplemented by the directory of local waste collectors and recyclers maintained by EPD. All companies and green groups identified in the survey were fully enumerated under WRS; and
 - (e) in recent years, WRS achieved response rates ranged from 75% to 77%, which were statistically acceptable considering that the WRS was a voluntary survey;
- the accuracy and reliability of the waste statistics related to waste disposal was beyond doubt as they were based on factual weighbridge data recorded at entrances of waste treatment facilities;
 - the accuracy of the quantities of waste recovery mainly depended on the accuracy of the declared domestic exports statistics of recyclables, as most of the locally-generated recyclables were exported for recycling. For instance, for the years 2013 and 2014, the proportion of locally-generated recyclables exported for recycling were 93% and 98% respectively of the total quantity of waste recovery; and
 - as for WRS, the data accuracy very much depended on the provision of sufficient and accurate data by the recyclers concerned. EPD had no statutory authority to verify the reported data with supporting business documents. Notwithstanding this, EPD conducted verification checks with the responding companies by selecting a random sample of the survey returns submitted by the survey contractor. In light of above, EPD had reasons to be confident on the accuracy and reliability of WRS to be at least as good as that of other surveys professionally conducted on voluntary basis.

12. The Committee noted from paragraph 2.12 and Table 2 of the Audit Report that the aggregates of the quantities of "import recyclables" plus "local recyclables recovered for export" significantly exceeded the quantities of export recyclables in 2009-2011. The Committee asked for the reasons for such significant discrepancy and the possibility that a vast quantity of import recyclables had been disposed of at the local landfills in that period.

13. **Director of Environmental Protection** said at the public hearing and stated in her letter dated 21 December 2015 (*Appendix 8*) that:

- based on EPD's analysis of the relevant data and with reference to Consultant Study commissioned in late 2012 on Comprehensive Review on Estimation of Waste Recovery Rate ("the Consultant Study")³, EPD assessed the "excess" of "the aggregates of the quantities of import recyclables plus local recyclables recovered for export" against the "quantities of export recyclables" in 2009-2011 could basically be attributed to the amount of "re-export recyclables" wrongly declared as "domestic-exports of recyclables" by export declarants;
- there was no practical means to ascertain the exact extent of mis-reporting of re-exports as domestic exports during the three years as it was not possible to re-verify past export declarations with the declarants;
- EPD's assumptions (i.e. 30% to 40% of re-exports were mis-reported) were conservative in light of the findings of the Consultant Study that a majority of recyclers and traders were actually confused and could not tell the difference between re-exports of recyclables and domestic exports; and
- amongst the different types of imported recyclables, plastic recyclables constituted the major proportion (about 80% to 84%) in recent years. Despite the rise in the quantities of declared imported recyclables particularly those of plastics recyclables in the range of 4.0 to 4.8 million tonnes in 2009-2011, the annual disposal quantity of waste plastics at landfills had remained relatively stable in the range of 0.6 to 0.7 million tonnes.

3 Please refer to paragraph 2.16 in the Audit Report for details of the Consultant Study.

14. The Committee further asked how EPD could prevent the disposal of import recyclables at local landfills. **Director of Environmental Protection** explained at the public hearing and stated in her letter dated 21 December 2015 (*Appendix 8*) that in line with the international practices adopted by other countries/places, Hong Kong laws strictly prohibited the disposal of imported waste locally. It was an offence to import waste for disposal in Hong Kong. EPD had close surveillance at landfills and refuse transfer stations on all incoming waste loads to prevent illegal disposal of imported recyclables. All vehicles entering a waste disposal facility must stop at the weighbridge for weighing and inspection. The drivers were required to open hood covers of their vehicles to facilitate inspection of the waste transported via closed circuit television system. If it was suspected that imported recyclables were delivered to the landfill for disposal, EPD would not only intercept and trace the source but also contacted the owners to facilitate recycling of the waste so as to effectively prevent the disposal of imported recyclables at landfills. On interception of any attempt to dispose of imported recyclables in landfills, enforcement action would be taken. In the execution of the above control, EPD had not found loads of imported recyclables disposed of at landfills.

15. According to paragraph 2.16 of the Audit Report, EPD commissioned a consultant to review the abnormal fluctuations of MSW-recovery rates in 2012 and the consultant reported in February 2014 that the fluctuations were likely due to the incorrect treatment of import recyclable plastics as locally-generated waste plastics recovered for export. The Committee enquired about the follow-up actions that EPD, C&SD and C&ED had taken to rectify the incorrect treatment by the relevant traders and exporter.

16. **Director of Environmental Protection** explained at the public hearing and in her letter dated 21 December 2015 (*Appendix 8*) that the relevant departments, including EPD, C&SD and C&ED had implemented enhancement measures in the collection of export data of recyclables, which included preparing additional guidelines and training workshops to help recyclers and export trade declarants to better understand the declaration requirements (in particular regarding the definition of "domestic export" and "re-export" applicable to recyclable materials), strengthening checking of export declarations and collecting additional data from export trade declarants on the source of recyclable plastics declared as domestic export on a sample basis.

17. **Mr Leslie TANG Wai-kong, Commissioner for Census and Statistics**, explained at the public hearing and in his letter dated 15 December 2015 (*Appendix 9*) that C&SD had implemented the following measures since April 2014

to facilitate declarants of domestic exports of waste plastics to understand declaration requirements and relevant definitions with a view to lodging trade declarations of domestic exports and re-exports properly:

- six thematic workshops were arranged during April 2014 to November 2015 for traders and recyclers of waste plastics. During the workshops, guidelines on export declaration requirements of waste plastics were provided to the participants (over 70 representatives from over 60 traders and recyclers); and
- the enhanced quality check procedures had been implemented since April 2014 by selecting a sample of trade declarants of domestic exports of waste plastics. The sampled declarants needed to provide supplementary information on the declared waste plastics, including whether the waste plastics were recovered locally or processed from imported waste and type of processing in Hong Kong. The procedures were to confirm that the declarants clearly understood the definition of domestic exports and re-exports and used the correct code for declaration.

18. **Commissioner for Census and Statistics** further explained that according to the results of the enhanced quality check procedures on domestic exports of waste plastics, in the second quarter of 2014, around 10% of the domestic exports of waste plastics should be re-exports. In the third quarter of 2015, the corresponding percentage was less than 1%. This reflected that the measures implemented since April 2014 had been effective in enabling traders of domestic exports of waste plastics to clearly understand the definition of domestic exports and re-exports and correctly declare domestic exports and re-exports.

19. **Mr Roy TANG Yun-kwong, Commissioner of Customs and Excise**, said at the public hearing and stated in his letter dated 14 December 2015 (*Appendix 10*) that C&ED would work together with C&SD to strengthen the verification of the information on export declarations by randomly selecting trade declarants of domestic exports of recyclable plastics and requiring them to provide supplementary information on the declared recyclable plastics, including whether the recyclable plastics were recovered locally or processed from imported recyclable materials and type of processing in Hong Kong. C&ED would investigate all irregularities cases referred by C&SD and would initiate prosecution against any person who knowingly or recklessly lodged any declaration that was inaccurate in any material particular.

Per-capita-per-day domestic MSW generation of Hong Kong comparing to other cities

20. With reference to Figure 6 in paragraph 2.18 of the Audit Report, the Committee enquired about the reasons for per-capita-per-day domestic MSW generation of Hong Kong higher than those of Taipei City, Seoul City and Metro Tokyo in 2011.

21. **Mr WONG Kam-sing, Secretary for the Environment**, said at the public hearing and **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that:

- as different cities had different geographical, social, economic and cultural circumstances, it would be extremely difficult to draw definitive conclusions on reasons for variations in their communities' behaviour. It was also relevant to note that the compilation of statistics of different cities might vary due to the differences in definitions and methodologies;
- it was useful to examine the trend of waste arising in these cities based on comparable parameters and relate this with the implementation of specific policies or programmes. For this purpose, the Administration had plotted the trend of domestic/household MSW disposal in the three places and highlighted on the same chart their waste related policy developments (*Appendix 8*). The Administration had the following observations:
 - (a) in both Taipei and South Korea, development of incinerators and landfills proceeded before the implementation of mandatory MSW charging. This might have reflected the sense of urgency or critical situation felt by the community concerned on the waste situation, which might have driven waste reduction behaviour;
 - (b) the implementation of volume based MSW charging created the most significant impact on waste reduction. Other mandatory measures targeting at specific waste types helped further reduce waste generation but the impacts were less significant. In Hong Kong, the domestic MSW disposal rate showed reduction in 2004 and the trend continued until 2012, after which the rate remained stable and at the relatively low level as compared

with 2003. That could be attributed to a series of education and publicity measures that had been launched since 2004, as well as discussion on the critical situation of waste management and the need for additional treatment facilities such as incineration, extension of landfills, which started in 2005 along with the publication of a strategy-based Policy Framework document and consultation; and

- (c) updated and more focused plans for engaging the community attention to the imminent waste issues were made in the subsequent years, including the announcement of strategy on "Reduce, Recycle and Proper Waste Management" in 2011 and the issue of the 2013 Blueprint; and
- though the scale of reduction in domestic MSW arising in Hong Kong was smaller when compared with the other two places, Hong Kong had a similar trend of decline. With the implementation of the mandatory schemes which were either being considered by LegCo (i.e. PR schemes on waste electrical and electronic equipment ("WEEE") and glass beverage bottles) or under preparation (i.e. MSW charging), the Administration considered that it could drive behavioural change to reduce MSW disposal rate by 40% on a per-capita basis by 2022.

PR schemes

22. The Committee asked for the reasons for not meeting the time targets set in the 2005 Policy Framework for PR schemes on WEEE, vehicle tyres, glass beverage bottles, packaging materials and rechargeable batteries as revealed in paragraphs 2.24 and 2.26 of the Audit Report.

23. **Secretary for the Environment** said at the public hearing and **Director of Environmental Protection** supplemented at the public hearing and in her letter dated 21 December 2015 (*Appendix 8*) that:

- under the 2005 Policy Framework, it was the target to introduce three PR schemes into LegCo in 2007 for plastic shopping bags ("PSBs"), WEEE and vehicle tyres respectively, two in 2008 for glass beverage bottles and packaging materials respectively and one in 2009 for rechargeable batteries;

- the Administration introduced the legislative proposals for the first PR scheme for PSBs in 2007 as part of the Product Eco-responsibility Bill (which was subsequently enacted in 2008 as the Product Eco-responsibility Ordinance (Cap. 603)). The original legislative approach was that Cap. 603 would provide the framework for PR schemes whereas product-specific measures would be subsequently introduced through subsidiary legislation. This proposed approach echoed the ambitious timetables as set out in the Framework;
- the LegCo Panel on Environmental Affairs ("EA Panel") did not support this legislative approach. Instead it requested that each PR scheme should be implemented through legislative amendment to the enabling legislation and subject to the three-reading scrutiny of LegCo. More time was therefore needed to implement the various PR schemes under the latter legislative approach; and
- furthermore, the actual experience also demonstrated that it was impracticable to complete the necessary preparatory work in relation to research, analysis, trial (if needed), consultation and law drafting for a PR scheme within the target timeframe as originally proposed under the 2005 Policy Framework. Having reviewed the implementation of the PR schemes taking into account the latest development and the experience gained by the Administration, EPD had accorded priority to the PR schemes on the extension of PSBs, WEEE and glass beverage bottles for which the legislative proposals had been introduced into LegCo in May 2013, March 2015 and July 2015 respectively.

24. In reply to the Committee's enquiry regarding the progress and revised time targets for implementing the remaining three PR schemes on vehicle tyres, packaging materials and rechargeable batteries ("three remaining products"), **Director of Environmental Protection** said at the public hearing and stated in her letter dated 21 December 2015 (*Appendix 8*) that:

- as committed under the 2013 Blueprint, the Government would conduct studies on the PR schemes for three remaining products between 2016 and 2018. In conducting the studies, EPD would take stock of the present position of the relevant products as an environmental problem in Hong Kong including their current waste generation rate and effectiveness of the existing recycling efforts. EPD would then assess the need of any enhanced efforts to promote

their recycling and proper disposal and whether a PR scheme should be introduced;

- in 2014, about 21 tonnes per day ("tpd") of waste vehicle tyres was disposed of at the landfills. Rechargeable batteries were counted towards household hazardous wastes alongside paints, pesticides, fuels, cylinders, electrical appliances, computer products, mercury-containing fluorescent lamps and medicines, etc. and about 160 tpd of household hazardous wastes was landfilled in the same year. As regards packaging materials, EPD did not have specific disposal figures as they were unable to trace the source or uses of the waste at the landfills solely on the basis of the nature of materials; and
- in case a PR scheme was considered necessary and appropriate for a particular product, EPD would conduct further research with a view to drawing up the initial proposals for the regulatory framework and other complementary measures for public consultation and trade engagement as soon as practicable. The actual timetable for introducing the legislative proposals into LegCo would depend on complexity of individual PR schemes, including the applicability of experience accumulated through the first three schemes. In case more than one PR scheme was pursued and if circumstances permitted, EPD would aim to expedite actions and would not rule out the possibility of an omnibus bill which might carry legislative proposals for multiple PR schemes.

25. **Acting Secretary for the Environment** added at the public hearing that the Administration was planning to introduce the PR scheme on a new product, i.e. plastic bottles, as the current generation rate of plastic bottles was very high.

26. The Committee asked about the current measures adopted by the Administration to encourage the recycling of the three remaining products before the relevant legislation was enacted. **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that with the support of the relevant trades, a voluntary PR scheme had been in place to promote the recycling and proper disposal of rechargeable batteries since April 2005. Since 2013, following targeted publicity through the Voluntary Agreement on Management of Mooncake Packaging, EPD had been monitoring the eco-friendliness of packaging methods of mooncake products through periodic surveys. As for vehicle tyres, EPD had been monitoring the waste generation and the annual waste statistics showed that its

landfill disposal dropped drastically from a daily average of 49 tpd in 2005 to 21 tpd in 2014 (and at one point less than 2 tpd in 2011). On the other hand, a piece of land in the EcoPark had been leased to a private recycler to develop a rubber vehicle tyre treatment plant, which was scheduled for commissioning in early 2016.

27. According to paragraph 2.42 of the Audit Report, in May 2011, EPD informed LegCo that Phase 1 of PR scheme on PSBs ("PSB Phase 1") had been implemented successfully, and that based on two landfill surveys 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 and personal-item stores) disposed of at the landfills had decreased from 657 million in 2009 to 153 million in 2010 (77% reduction). In this regard, the Committee enquired about:

- whether guidelines had been issued by EPD for its landfill contractors to follow in making the estimation above; and
- the Administration's views on the accuracy of such data from the landfill surveys in reflecting the effectiveness of the first phase of the PR scheme on PSBs.

28. **Senior Statistician of EPD** said at the public hearing and **Director of Environmental Protection** stated in her letter dated 3 December 2015 (*Appendix 11*) that:

- detailed methodology concerning waste sampling, manual sorting, weighing and recording etc. were specified in the contract documents for the survey contractor who must follow such methodology as a mandatory contractual requirement. Appropriate training was provided to frontline field workers. Apart from briefing, real case examples were given to better illustrate how they were expected to categorize the PSBs by identification of their visible features. The survey contractor deployed supervisory staff to provide on-site guidance to the field workers and exercise quality control. EPD inspectorate staff were also present throughout the field work period to ensure that the surveying processes were properly carried out;
- on the whole, the disposal surveys were designed to meet an overall margin of error of around 10% at a 95% confidence level, which by

professional statistical standards means that the survey results (including the total disposal of PSBs) were valid; and

- in the Audit Report, observations were made that the number of "pertinent PSBs" found at landfills from the disposal surveys was significantly greater than that of PSBs distributed by registered retailers at registered outlets based on their returns. In response to these observations, the Administration had informed Audit that a registered retailer under PSB Phase 1 must submit a quarterly return providing information on, amongst other things, the total number of PSBs provided directly or indirectly to customers in each of his registered retail outlets during the reporting period. However, for the reasons as set out in paragraph 2.50 of the Audit Report, the Administration was unable to compile statistics on the number of PSBs belonging to registered retail outlets from the disposal surveys. Notwithstanding this limitation, the Administration considered that the number of PSBs disposed of at the landfills was still the most relevant indicator on the effectiveness of the environmental levy in reducing the use of PSBs.

29. In reply to the Committee's request, **Director of Environmental Protection** provided the methods used by EPD landfill contractors to estimate the number of pertinent PSBs disposed of at landfills in the landfill surveys in her reply dated 3 December 2015 (*Appendix 11*).

30. The Committee further asked about the measures to strengthen the gathering of reliable statistics in assessing the effectiveness of PR schemes. **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that since the Administration had extended the PR scheme on PSBs to cover the entire retail sector with effect from 1 April 2015, Audit's concern that some "pertinent PSBs" were distributed by non-registered retail outlets was no longer relevant. The Administration planned to strengthen its efforts in assessing the effectiveness of the extension in the PR scheme through:

- conducting periodic telephone surveys to gauge information on consumers' attitude and behavioural change in response to the PR scheme;
- reviewing the information published by the Hong Kong Retail Management Association which had agreed to coordinate the voluntary reporting of the relevant statistics by its members;

- commissioning dedicated surveys to assess the likely sources of the PSBs classified under the "Others" category; and
- as for the new PR schemes for WEEE and glass beverage bottles, their effectiveness would mainly be assessed on the basis of the amount of WEEE and glass containers recovered through the respective schemes. The relevant statistics could be compiled directly from the records that would be submitted by the management contractors.

Post-implementation review of the 2005 Policy Framework

31. In response to the Committee's enquiry on Audit's recommendation for the Administration to conduct a post-implementation review of the 2005 Policy Framework, **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that:

- in the 2005 Policy Framework, the Administration set out targets to reduce waste generation, increase recovery rate and reduce disposal quantity. In light of the initial achievements and experience gathered, EPD thoroughly reviewed its positions and updated the targets and actions plans in 2011 to cope with the latest challenges;
- taking stock of the experience gained in the implementation of the Policy Framework and the 2011 Review, as well as the latest development in Hong Kong and elsewhere, the Administration had consolidated past actions and updated the relevant policy tools and implementation strategy in the 2013 Blueprint. The Administration had briefed EA Panel on the progress of its efforts in 2009, 2011, 2012 and 2013; and
- the Administration did not consider that the 2005 Policy Framework, the 2011 Review and the 2013 Blueprint were unrelated documents. The 2013 Blueprint represented continued refinement of the action plans and the timetables in the light of their experience and the social, economic and political developments. In the Administration's view, it would be more fruitful to focus on the implementation of the 2013 Blueprint at this stage. The Administration would brief EA Panel on the progress and initial achievements of the waste management measures promulgated in the 2013 Blueprint in 2016 when the waste statistics for 2015 was available.

C. Recovery of municipal solid waste

Over-estimation of MSW-recovery rates

32. The Committee noted that there was a drastic decline of the MSW-recovery rates, from 52% in 2010 to 37% in 2013 and 2014, possibly as a result of the erroneous inclusion of import materials in the statistics. As such, the Committee asked whether EPD would consider setting a new target for MSW-recovery rate.

33. **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that:

- unlike the approach adopted in the 2005 Policy Framework, the 2013 Blueprint adopted a single target of reducing per-capita MSW disposal rate by 40% by 2022. This target was measurable in that it was based on direct weighbridge data recorded at the waste disposal facilities, and it was also more embracing as it quantified the combined effect of the different action plans for reducing waste generation at source and enhancing waste recovery and recycling;
- the 55% recovery rate mentioned in the 2013 Blueprint was not a target in itself. Rather it illustrated the different composition of the waste management structure in 2022 as compared with the base year of 2011 where the then recovery rate was 48%, if the Administration was able to achieve the various waste reduction measures set out in the 2013 Blueprint;
- if the recovery rate for 2011 needed to be adjusted due to mis-reporting by recyclers, then corresponding adjustment should be made for that in 2022 by using the same methodology. The end result was likely that the proportion of different components would remain the same; and
- as the Administration was now implementing in full steam the 2013 Blueprint action plans and mobilizing the community's participation in these plans, the Administration considered that it served no meaningful purpose to focus on past overtaken actions and to set a recovery target for the 2013 Blueprint when the emphasis should be on the more measurable MSW waste disposal rate.

Measures to raise the recovery rate of waste plastics

34. In response to the Committee's question regarding the measures to raise the recovery rate of waste plastics, **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that the Administration would continue to take multiple measures to promote recovery of waste plastics, including:

- to step up communication with property management companies and concerned parties to take initiatives to enhance the collection arrangement of recyclables such as enlisting their support for active participation in recycling, proper sorting of waste by their types, and rinsing the recyclables where possible;
- to continue to carry out promotional and publicity work under the Clean Recycling Campaign to drive behavioural change so as to enhance the cleanliness and the hygienic condition of waste plastics and other source separated recyclables. An enhancement in the quality and quantity of the recyclables increased their value and thereby reducing resource from being dumped at the landfills; and
- to leverage on the Recycling Fund to assist recyclers, including those which were small and medium-sized enterprises, in upgrading and expanding local recycling operations and network in the form of a matching fund. Through upgrading their operation, e.g., installing plastic washing and pelletizing machine, to enhance the value of recycled materials, they would be in a better position to tackle challenges posed by market fluctuations.

Source-separation Programme

35. As revealed in paragraph 3.34 of the Audit Report 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 EPD with the related statistics, which had adversely affected the assessment of the effectiveness of the Source-separation Programme ("SS Programme"). The Committee asked EPD to provide the measures to be taken to review the effectiveness of SS Programme.

36. **Mr Howard CHAN Wai-kee, Deputy Director of Environmental Protection(2)**, said at the public hearing and **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that EPD, in collaboration

with various stakeholders, had been taking multiple actions to raise public awareness of source separation of waste and clean recycling. These actions included promotion of the three-colour recycling bins system, educational and promotional activities to targeted recipients and publicity programmes on different themes to reach out to community members. All these efforts contributed to driving behavioural change of the public and cultivating a persistent habit to practise recycling frequently and properly. The Administration also planned to engage a consultant to conduct a review of the implementation of SS Programme and make recommendations to improve the programme, including how to encourage and strengthen the collection of statistics on recyclables collected by participating estates as well as to further enhance public awareness and participation rate, increase quantity of recyclables recovered. The Administration would refine its promotion strategy in the light of the review.

37. According to paragraph 3.37 of the Audit Report, due to the lack of reporting requirements in the recyclable collection service contracts, the Government did not have statistics on the quantities of recyclables collected from waste-separation bins ("WS bins") which were disposed of at landfills due to contamination or other reasons. The Committee asked:

- how EPD would monitor and review the effectiveness of the recyclables-collection scheme without the relevant statistics;
- whether EPD would consider requesting contractors to submit such information for public disclosure;
- measures to monitor the contractors to ensure that the non-contaminated recyclables would be transported to approved recyclers, and the results of these monitoring activities in the past years; and
- the total expenditure incurred for collecting recyclables from WS bins in the past five years.

38. **Director of Environmental Protection** explained at the public hearing and in her letter dated 21 December 2015 (*Appendix 8*) that:

- the Food and Environmental Hygiene Department ("FEHD") had engaged a contractor through outsourcing to provide recyclables collection service. The contractor was required to collect waste paper,

metal and plastic from 2 850 public WS bins placed at locations such as pavements, refuse collection points, public markets, bus terminals and venues managed by schools, the Water Supplies Department and EPD. The expenditures incurred by FEHD on the contracts of collecting recyclables from WS bins over the past few years were:

Term of Service Contract	Contract Value (\$m)
August 2010 – July 2012	9.0
August 2012 – July 2014	12.9
August 2014 – July 2016	21.6

- according to the service contract, contractors must hand over the collected recyclables to the designated recycler for process. To improve monitoring and accountability, the service contract signed between FEHD and the contractor that took effect in August 2014 had included the following additional tender terms:
 - (a) to facilitate on-site monitoring, the contractor was required to use transparent plastic bags for collection of recyclables, and the bags should be printed with the words "used for collecting recyclables". Notices showing "FEHD contractor providing collection service for recyclables" should be displayed on both sides of the body of its collection vehicles;
 - (b) the contractor was required to nominate up to two local recyclers to receive and recycle plastic recyclables when submitting their bids for the contracts. Each recycler nominated should have independent capability and experience to properly process plastic recyclables at a designated recycling site; and
 - (c) FEHD might direct the contractor to change its recyclers if their performance was not satisfactory;
- FEHD had set up a comprehensive contract management mechanism under which the FEHD staff conducted regular and surprise checks to monitor the performance of the contractor. If any breach of contract provisions was found, the FEHD would take punitive actions accordingly, including issuing verbal warning, written warning and default notices. The monthly amount payable to the contractors who had received default notices would be deducted in the light of the breaches;

- since August 2014, EPD had also set up an additional monitoring mechanism to ensure the plastic recyclables collected by FEHD's contractor would be properly processed by the engaged recycler. EPD had conducted site inspection to assess the recyclable processing ability of the nominated recycler and provided recommendation to FEHD at the tender stage. Since FEHD had awarded the contract in August 2014, EPD had conducted nine site visits to check the operation of the recycler;
- similar monitoring arrangement had been implemented to Agriculture, Fisheries and Conservation Department and Leisure and Cultural Services Department recyclables collection service contracts and it would be extended to cover paper and metal recyclables in the forthcoming contracts. Under the current FEHD contracts for the collection of the recyclables, the contractors were required to provide data on the quantity of recyclables collected. EPD would explore with FEHD how to enhance the disclosure of information related to the quantity of recyclables collected by the contractors and information on the amount of recyclables which were actually recovered or disposed of due to contamination;
- for WS bins placed at locations such as country parks, leisure and cultural facilities, public housing estates, government quarters and government office buildings, the maintenance and management were provided and paid for by relevant departments or property management companies. The costs incurred were generally included in the refuse disposal and cleansing management contracts as a whole and no breakdown of such items was available; and
- with a view to facilitating waste reduction and resource recovery, ENB would convene a Steering Group to review among other things the design and distribution of WS bins in public place and to recommend changes as appropriate.

39. With reference to paragraphs 3.39(a) and 3.40 of the Audit Report, the Committee further asked EPD to provide measures to strengthen promotion efforts to encourage participating housing estates and C&I buildings to provide EPD with statistics on recyclables collected from WS bins.

40. **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that at present, a list of participating housing estates/buildings and a list of award-winning housing estates and residential buildings in the annual competition under SS Programme was published on the EPD Hong Kong Waste Reduction website. While it was voluntary for participating housing estates and C&I buildings to provide statistics on recyclables collected from WS bins to EPD, the Administration planned to take the following measures to encourage them to report the relevant data to EPD:

- to organize commendation schemes to recognize the property management companies or their owners whose buildings had reported and attained increases in recyclables collected from WS bins. Subject to feedback from consultation with the stakeholders, the Administration was ready to promote transparency of the reports on the statistics to encourage participation of residents and workers in recycling;
- to provide guidelines to assist collectors and recyclers to provide summary and analysis of the types and quantity of recyclables collected from the participating housing estates and C&I buildings on a timely basis; and
- to organize training to frontline staff on the purpose and process to collate and compile the statistics from WS bins with a view to alleviating their perceived increase in workload or concerns on the additional resources required in the process.

41. Referring to Audit's recommendations in paragraphs 3.39(b) and 3.40 of the Audit Report, the Committee enquired about the progress on the publishing of the number of housing estates and the corresponding population which had provided EPD with statistics on recyclables collected and those not providing the statistics.

42. **Director of Environmental Protection** stated in her letter dated 22 December 2015 (*Appendix 12*) that the Administration had been publishing the list of all participating housing estates/buildings on the Hong Kong Waste Reduction Website. It would also publish on the website the number of housing estates/buildings and the corresponding population which had provided it with the statistics. As the two lists were publicly available, the Administration did not consider it necessary to publish a separate list singling out those housing estates not providing the statistics under a voluntary programme which aimed to incentivize

participation. The two lists would be updated regularly. To facilitate the public reading the information, the Administration would amend the website page layout and put the information on the "News & Events" page. The Administration planned that the revised website page and the figures be ready and published starting from April 2016.

43. In response to the Committee's enquiry on the progress on computing and publishing the per-household-per-day quantities of recyclables collected by the participating estates which had provided EPD with statistics on recyclables collected, **Director of Environmental Protection** stated in her letter dated 22 December 2015 (*Appendix 12*) that:

- the Administration would consider ways to disclose the per-household-per-day quantities of recyclable waste collected by participating estates/buildings without diminishing the original intent of incentivizing good waste reduction behaviour or affecting the overall participation rate of a voluntary programme; and
- as a first step, the Administration would consider publishing regularly an "overall average per-household quantities of recyclables collected for the programme". Together with the information on number of housing estates and corresponding population returning statistics, the Administration planned to have the overall average per-household quantity figure be published on the Hong Kong Waste Reduction Website, on the "News & Events" page, starting from April 2016.

D. Recycling of municipal solid waste

Operation of Ecopark

44. In response to the Committee's enquiry about the operation of EcoPark, **Director of Environmental Protection** said at the public hearing and stated in her letter dated 21 December 2015 (*Appendix 8*) that:

- there were currently 13 tenants in the EcoPark engaging in processing a variety of waste types, including those identified for control under PR schemes, those that were difficult to recycle therefore had limited local recycling outlets such as food waste, waste wood and waste cooking oil, as well as those that lacked a robust market for the

processed materials such as waste rubber tyres. The total pledged capital investment by the tenants had exceeded \$300 million;

- as more tenants started commissioning their operations, the original projected annual throughput set at 58 600 tonnes in 2006 had been exceeded. In their tender returns, tenants had to pledge for minimum outputs. The current tenants had in total pledged to handle 200 000 tonnes in a full year upon full commissioning. In 2014, the amount of recyclables recovered by the EcoPark tenants amounted to over 150 000 tonnes;
- the Administration would continue to raise the community awareness of the Ecopark tenants so as to assist them in broadening their network in sourcing recyclables for treatment. General promotion on green procurement and importance of recycling would also be stepped up; and
- the Administration would also leverage on the EcoPark to disseminate information on proper recycling and cultivate a habit of recycling in daily lives of community members. Over 110 000 visitors had visited the EcoPark Visitor Centre since its opening in March 2010.

E. Treatment and disposal of municipal solid waste

Integrated waste management facility

45. With reference to paragraph 5.9 of the Audit Report, the Committee asked for the reasons for the postponement of the target of commissioning the integrated waste management facility ("IWMF") from mid-2010s to "2019 to 2022".

46. **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that:

- the Administration carried out a comprehensive site search exercise in 2006 to identify suitable sites for developing the first phase of IWMF and following the completion of the site search exercise in early 2008, Shek Kwu Chau site and the Tuen Mun Tsang Tsui Ash Lagoons site were found suitable as potential sites. In order to ascertain the suitability of these two potential sites, the Administration commissioned the detailed Engineering Investigation and

Environmental Impact Assessment studies for both sites in November 2008. The engineering investigation and environmental studies for the two potential sites for IWMF Phase 1 were completed in 2011;

- the long time taken for the development of IWMF Phase 1 was due to the need to obtain public consensus on related issues. Since February 2011, the Administration had met with over 2 500 stakeholders and about 60 groups/organizations, and attended 70 meetings to explain the need of the project and to address their queries on various aspects of the project. The Administration consulted the Advisory Council on the Environment on the findings of the feasibility study and the proposed moving grate incineration technology on 14 December 2009. At District Council level, the Administration attended the Islands District Council meetings on 21 February 2011, 20 February 2012 and 16 December 2013;
- since 2002, the Administration had attended over 10 EA Panel meetings to explain the need and justifications for the project. However, the Administration was not able to secure the support of EA Panel to submit the funding proposal to the Public Works Subcommittee ("PWSC") until 28 March 2014. The proposal was endorsed by PWSC on 27 May 2014 after five meetings. It was then approved by FC on 9 January 2015 after 10 meetings; and
- after obtaining funding approval, the Administration commenced the pre-qualification exercise in March 2015 to invite interested companies to make submission for pre-qualification. Preparation work for tender documents was now in progress. The Administration planned to invite tenders from the pre-qualified tenderers for the design, build and operate of the IWMF Phase 1 in 2016 and commission the facility in 2023.

Rising trend in MSW-disposal at landfills

47. According to Table 14 in paragraphs 5.14 and 5.15 of the Audit Report, notwithstanding the various actions taken by EPD in recent years to reduce the MSW generation and increasing the MSW recovery, the rising trend in both the total quantities and per-capita quantities of MSW disposed of at landfills from 2011 to 2014 was a cause of concern. The Committee asked why there was a rising trend in MSW-disposal at landfills.

48. **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that:

- to better understand the trend of MSW disposal rates, the Administration suggested that a longer term outlook on a per-capita basis should be adopted. The table at Chart 1 of *Appendix 8* could better illustrate the trend of MSW disposal rates over the past 10 years. The total MSW per-capita disposal rate actually was on a declining trend from 2005 to 2011 (from 1.38 kg/person/day in 2005 to 1.27 kg/person/day in 2011) but had since been on a slightly rising trend (1.35 kg/person/day in 2014). The declining trend could largely be attributed to the decline in domestic waste per-capita disposal rate (1.00 kg/person/day in 2005 to 0.89 kg/person/day in 2014). On the other hand, there had been a slightly rising trend in C&I waste per-capita disposal rate (from 0.37 kg/person/day in 2005 to 0.46 kg/person/day in 2014), offsetting the reduction in domestic waste;
- as economic growth generally increased the level of consumption and production activities which in turn might contribute to generating more waste, the rising trend of C&I waste disposal rate over the past 10 years was likely caused by increases in economic activities. As shown in Chart 2 of *Appendix 8*, the growth of per-capita-per-day C&I waste disposal rate over the last 10 years correlated normally with the growth of real Gross Domestic Product ("GDP"); and
- both the 2005 Policy Framework and the 2013 Blueprint recognized the importance of reducing waste at both the domestic and C&I sectors. Despite slight reduction of the overall MSW waste disposal rates over the past 10 years due to educational and policy waste measures, more efforts would need to be made if the Administration were to achieve the waste reduction target set out in the 2013 Blueprint. To this end, the Administration would vigorously pursue the various actions set out in the 2013 Blueprint and closely monitor progress of the various waste reduction measures in both the domestic and C&I sectors.

Estimation of the remaining serviceable lives of the landfills

49. According to paragraph 5.19 of the Audit Report, the historical MSW-disposal showed a weight-to-volume ratio of 1.24 tonnes of waste : 1 cubic meter ("m³") of landfill space. However, EPD had adopted a ratio of 1 tonne of

waste : 1 m³ of landfill space for estimating the remaining serviceable lives of the three landfills. The Committee asked why EPD had adopted this ratio in estimating the remaining serviceable lives of the landfills.

50. **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that construction waste represented about 50% of total waste disposed of at the landfills (1990-2005 average) prior to the implementation of construction waste disposal charging scheme in 2006, whilst thereafter the proportion was significantly reduced to about 25% (2006-2014 average). A ratio of 1.24 tonnes of waste : 1 m³ of landfill space was derived by the Audit based on historical information back to 1990s. However, inert construction waste (e.g. rock and concrete debris) had a higher weight-to-volume ratio as compared with ordinary MSW. In light of the significant reduction of inert construction waste requiring landfill disposal since 2006, EPD had adopted a more prudent and realistic assumption of a lower weight-to-volume ratio of 1 tonne of waste: 1 m³ in estimating the remaining serviceable lives of the three landfills.

51. As revealed in paragraph 5.20 of the Audit Report that in estimating the remaining serviceable lives of the three landfills, EPD had assumed that there would be growth in the MSW quantities, construction waste and special waste being disposed of at landfills in the coming years. The Committee queried the basis of such assumptions, and whether EPD had taken into account the effort made in recent years in reducing, recycling and recovery of MSW in arriving at such assumptions.

52. **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that:

- in estimating the remaining serviceable lives of the three landfills in the course of planning of the landfill extension projects in 2011-2012, EPD had made reference to the best available information at that time, including projected annual population growth (of 0.8% to 1%) from C&SD, forecasted GDP growth rate (of 4% per annum) from the Economic Analysis and Business Facilitation Unit and the latest information on annual increase in construction waste disposal at landfills (of 14.8% from 2009 to 2010), and adopted the assumptions that there would be a 2.5% annual growth rate of MSW and a 10% annual growth rate of construction waste respectively. Regarding the generation of special wastes, the Administration adopted a moderate annual growth rate of 5% in the planning exercise, having regard to its

comparative minor share of 8% of the total waste disposal at landfills; and

- in adopting the above assumptions on MSW and construction waste growth rates, EPD had taken into account the impacts of the promotional efforts on waste reduction and recycling. Nevertheless, as landfills were the last resort for waste disposal, the Administration had been prudent in the planning assumptions.

53. The Committee noted that Acting Secretary for the Environment had stated in her opening remark that "[LegCo] Members were provided with the information they requested, including those on the assumptions adopted in the estimation". In this connection, the Committee asked for the assumptions provided to Members when scrutinizing funding applications in 2014, and whether these assumptions included the assumptions in paragraph 5.19 of the Audit Report.

54. **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that:

- during the process of seeking funding approval from LegCo for the landfill extension projects, EPD provided information about the approach adopted in estimation of the remaining serviceable lives of landfills to EA Panel, PWSC and FC; and
- the detailed assumptions that EPD adopted in the projection were set out in paragraph 5.19 (a) to (d) of the Audit Report. These planning assumptions covered population growth, increases in economic activities, fluctuation of waste quantity, effectiveness of waste reduction measures, as well as information on landfill operation and landfill extension projects. In response to questions raised, factors taken into account in projecting the remaining capacity of the landfills were presented. The Administration had noted Audit's view that additional information on quantifiable data should also be presented in future funding applications and would do so in future applications.

55. In reply to the Committee's request, **Director of Environmental Protection** provided a table setting out the relevant information and discussion at LegCo about the approach adopted in estimation of remaining serviceable lives of the three landfills in her reply dated 21 December 2015 (*Appendix 8*).

56. According to the papers submitted by the Administration to EA Panel in 2008, 2012, 2013 and 2014, EPD had consistently changed the estimated remaining serviceable lives of the three landfills in Hong Kong. Under this circumstance, the Committee asked for the measures to improve the accuracy of such estimations, and the latest estimation of the remaining serviceable lives of the three landfills.

57. **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that the estimated serviceable lives of the landfills depended on a wide range of factors including population growth, level of economic and construction activities, implementation of waste reduction initiatives, provision of other upstream waste treatment facilities, development of landfill design, mode of landfill operation and implementation of landfill extension projects. As most of the contributing factors were dynamic in nature, the estimated serviceable lives of the landfills should be reviewed from time to time, having regard to the latest available information. This accounted for the necessary changes in the estimation upon review during the different stages of submissions to EA Panel from 2008 to 2014. With the funding approval of the LegCo on Southeast New Territories Landfill Extension and Northeast New Territories Landfill Extension in December 2014, it was anticipated that the increased serviceable lives of the three landfills would cope with the ultimate waste disposal need for the territories up to late 2020s. The estimated serviceable life of the West New Territories Landfill upon its extension would only be available upon completion of the relevant consultancy study.

Long-term planning study of waste disposal infrastructure

58. In reply to the Committee's enquiry regarding the details of the long-term planning study of waste disposal infrastructure commenced in September 2015 as mentioned by the Acting Secretary for the Environment in paragraph 16 of her opening remark at the public hearing on 7 December 2015, **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that:

- even upon the implementation of all waste reduction at source/reuse/recycling measures as set out in the 2013 Blueprint and "A Food Waste and Yard Waste Plan for Hong Kong (2014-2022)", there would still be a considerable amount of residual solid waste requiring disposal of at landfills. As the existing and currently planned waste management facilities would not be able to deal with all the waste sustainably in future, there was a need to carry out a study to identify additional strategic and regional waste treatment and bulk

waste transfer facilities for the management of solid waste to reduce reliance on landfills for waste disposal and to meet Hong Kong's longer term requirements;

- the Administration commissioned a study for planning of future waste management and transfer facilities in September 2015. The main objective of the study was to formulate, develop and produce a territory-wide plan and strategy on the provision of waste treatment and bulk waste transfer facilities for handling solid waste in an environmentally acceptable, sustainable and cost-effective manner to meet Hong Kong's sustainable development needs. The study would identify additional strategic and regional waste facilities required for bulk transfer and treatment of MSW and construction waste in line with smart city and circular economy concepts, draw up an outline action programme and develop the relevant planning guidelines for the identified waste facilities;
- the study would explore a variety of issues, including types and requirements, technology choices, optimal scales, spatial distribution, siting principles, site requirements, selection criteria, procurement options, potential broad geographical areas and indicative timing of the additional waste treatment and bulk waste transfer facilities; and
- according to the current programme, the study was expected to complete in the second quarter of 2017.

F. Way forward

59. In response to the Committee's question on the actions to be taken by the Administration to reduce MSW generation and increase MSW recovery, **Director of Environmental Protection** stated in her letter dated 21 December 2015 (*Appendix 8*) that the 2013 Blueprint analyzed the challenges and opportunities of waste management in Hong Kong, and mapped out a comprehensive strategy, targets, holistic policies and ten-year action plans for waste management with a view to tackling the waste problems in Hong Kong. The Administration endeavoured to implement the 2013 Blueprint and appeal to the public for support to achieve the targeted results. The Administration's major initiatives in the coming years included:

- driving behavioural change through mandatory schemes: Overseas experience had shown that implementing quantity-based charging

could create financial incentive to drive changes in the public's waste-generating behaviour, thus achieving an overall reduction in waste disposal. The Administration was working towards implementing quantity-based charging in accordance with the views collected during the public engagement process. The Administration was now progressively implementing the PR schemes;

- continuing efforts on education and publicity: Environment and Conservation Fund would continue to fund projects by green groups and non-government organizations at community level to mobilize the local community to participate in waste reduction, source separation and clean recycling. The Administration would enhance its collaboration with government departments, district councils, schools, housing estates, property management companies, green groups and social services organizations in setting up more community recycling points to form a wider community recycling network to help develop the habit of clean recycling. The Administration was also progressively developing one community green station in each of the 18 districts, which would be run by non-profit making organizations to step up environmental education and enhance the logistics support in the collection of various low-value recyclables (such as electrical appliances, computers, plastic bottles, glass bottles, compact fluorescent lamps and rechargeable batteries) in the local community;
- promoting sustainable development of the recycling industry: The Administration had launched the \$1 billion Recycling Fund to assist recyclers to improve the collection network for recyclables, invest on machinery to lower the processing costs, develop value-adding recycled products, explore new market, obtain certification for the recycling process, attend training to enhance their skills and awareness of occupational safety and health, etc. The Administration would take heed of the advice and recommendations of the Advisory Committee on Recycling Fund, which comprised experts, academics and people with experience in business management and community service, as well as representatives from various business and industry associations, in operating the Fund. The Administration was stepping up co-operation with the industry to increase the operational capability of local recyclers and uplift the image of the industry, raise the standard of the occupational safety and health, enhance the training for current practitioners and attract more newcomers to join the industry;

- promoting food waste reduction: The Administration would continue with the Food Wise Hong Kong Campaign to promote public awareness of the food waste problem in Hong Kong. The Administration would also encourage behavioral changes in various sectors of the community for reduction in food waste. The Administration would continue to give support to non-government organizations and encourage them to collect from business establishments, such as supermarkets, wet markets, restaurants, clubs, hotels, etc., food which was surplus but edible or was approaching but not reaching the expiry date for donation to the people in need; and
- strengthening infrastructural and land support: The Administration would continue to monitor the performance of tenants and usage of sites at the EcoPark; to encourage tenants to invest in advanced technologies and recycling processes; and to enhance the facilitation measures to address their operation needs at different stages of development. The Administration was conducting a study on land support required for continuable development of the recycling industry.

60. Estimation of the remaining serviceable lives of the three landfills was one of the most important factors in considering the Administration's funding applications for environmental projects, such as landfill extension, waste-to-energy facilities and organic waste treatment facilities, etc., by LegCo Members. During the scrutiny of landfill extension projects in 2014, some LegCo Members had repeatedly stressed their concerns that the Administration would slow down its efforts in putting forward policies and measures to reduce and recycle waste because of the provision of excessive waste disposal facilities, such as over-provision of landfill capacity and IWMF. As such, any variation in the estimation of the remaining serviceable lives of the three landfills would affect the overall waste management strategies and the priority and the timetable of implementing the relevant projects. In view of the inadequacies identified in the Audit Report on the estimation of the remaining serviceable lives of the three landfills and EPD's latest estimation, the Committee asked whether the Administration would develop a new blueprint setting out the revised waste management strategies, in particular whether additional resources and manpower would be allocated to enhancing the reduction and recycling of MSW.

61. **Director of Environmental Protection** stated in her letters dated 22 December 2015 (*Appendix 12*) and dated 11 January 2016 (*Appendix 13*) that:

- the underlying thinking of the 2013 Blueprint was to tackle waste problems from a resource re-circulation perspective. As part of waste reduction, the Administration encouraged the public to reuse and recycle as far as possible. Unavoidable waste would be turned into energy by modern technology while disposal at landfills would be the last resort. To measure the effectiveness of the comprehensive package of waste reduction measures set out in the 2013 Blueprint, the Administration had adopted a single target of reducing the MSW waste disposal rate on a per-capita basis by 40 percent by 2022. The accuracy and reliability of the waste statistics related to waste disposal was beyond doubt as they were based on factual weighbridge data recorded at entrances of waste treatment facilities. Other factors such as the fluctuations in waste recovery rates and the estimation of the serviceable lives of the three landfills would not diminish the impact of the various waste reduction measures, nor the waste reduction target set out in the 2013 Blueprint; and
- in the coming years, the Administration would endeavour to implement the 2013 Blueprint and appeal to the public for support to achieve the targeted results. While the 2013 Blueprint had only been implemented for a few years, the Administration had been constantly reviewing its waste management policies and initiatives to ensure they were responsive to new challenges posed by societal development, kept pace with public aspirations and were timely and adequate to address the needs of the industry.

G. Conclusions and recommendations

Overall comments

62. The Committee:

- expresses alarm and finds it unacceptable that despite the ambitious vision of the Administration in managing municipal solid waste ("MSW") as enshrined in the "Policy Framework for the Management of Municipal Solid Waste (2005-2014)" ("the 2005 Policy Framework"), the Environment Bureau ("ENB") and the Environmental Protection Department ("EPD") had demonstrated a lack of determination to execute the action plans in a professional and effective manner in order to achieve the targets set out in the 2005

Policy Framework. As a result, the Administration had failed in meeting all the main waste management targets set out in the 2005 Policy Framework as follows:

- (a) MSW-generation quantities of 5.62 million tonnes in 2014 had exceeded the target of 5.25 million tonnes by 7%;
- (b) the published MSW-recovery rate was 37% in 2014, which had fallen short of the target level of 50% by 13%; and
- (c) the percentage of MSW disposed of at landfills was 63% in 2014 (3.57 million tonnes out of 5.62 million tonnes), which had exceeded the target level of 25% by 38%.

In addition, there have been substantial delays in the implementation of the policy tools proposed in the 2005 Policy Framework, including the producer responsibility schemes ("PR schemes"), the MSW charging scheme and the integrated waste management facility ("IWMF") project;

- finds it appalling and inexcusable that ENB and EPD had failed in their roles in compiling and providing useful, accurate and essential information to facilitate the discussion of the public and the Legislative Council ("LegCo") on waste management strategies and projects in a timely manner as evidenced by the following:
 - (a) despite that significant over-estimation of the MSW-generation quantities and MSW-recovery rates had existed for many years due to the negligence on the parts of ENB and EPD in including unknown quantities of import recyclables in the estimation, they had only since April 2014 adopted measures to improve the accuracy of these two key performance indicators on the Administration's actions in managing MSW. This had inevitably distorted the objective measurement of the effectiveness of the Administration's efforts to increase MSW recovery and recycling rates;
 - (b) ENB and EPD had consistently underestimated the remaining serviceable lives of the three landfills in their papers submitted to LegCo from 2008 to 2014 for funding applications for environmental infrastructure projects;

- (c) the key performance indicators such as the MSW-generation quantities, the MSW-recovery rates, and the remaining serviceable lives of the three landfills are important factors in formulating waste management strategies and priorities by the Administration. They are also the key factors that LegCo Members had considered when the Administration submitted the funding applications for environmental infrastructure projects, such as landfill extensions, IWMF and the organic waste treatment facility ("OWTF"). The failure of ENB and EPD to compile more accurate estimations of these factors might lead to LegCo's decisions to approve waste management projects and prioritize the use of precious resources not in the best interests of Hong Kong; and
- (d) the accuracy of the statistics collected for evaluating the effectiveness of the measures on MSW reduction and recovery was in doubt given the following inadequacies: the method used by EPD to estimate the MSW recovery rate and the number of plastic shopping bags ("PSBs") bearing the features of supermarkets, convenience stores or personal-item stores ("pertinent PSBs") disposed of at landfills; the low response rate on the provision of statistics on the quantities of recyclables collected from waste-separation bins by participating housing estates and commercial and industrial ("C&I") buildings under the Source-separation Programmes;
- expresses serious disappointment that the current term Government has planned to conduct a study to review the need of implementing the PR schemes on three of the six products proposed by the previous term Government in the 2005 Policy Framework, i.e. vehicle tyres, packaging materials and rechargeable batteries. This policy shift might have disrupted the continuation of the policies on MSW management established by the previous term Government and affected the overall effectiveness of the policies. Moreover, ENB and EPD had not consulted LegCo or the public on the decision of the above policy shift, nor had they consulted LegCo or the public about their plan to introduce the PR scheme on a new product, i.e. plastic bottles;
- emphasizes that during the scrutiny of the funding applications for landfill extension projects in 2014, some LegCo Members had repeatedly stressed their concerns that the Administration would slow down its efforts in putting forward policies and measures to reduce and

recycle waste because of the provision of excessive waste disposal facilities, such as over-provision of landfill capacity and IWMF. If more accurate estimations had been provided to LegCo, the funding applications for landfill extensions might have been deferred and the resources could have been used to enhancing the reduction and recycling of MSW or allocated to more urgent and useful community projects;

- notes that:
 - (a) in 2013, the Administration updated the relevant policy tools and implementation strategy in the "Hong Kong Blueprint for Sustainable Use of Resources (2013-2022)" ("the 2013 Blueprint"). The 2013 Blueprint set a target of 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, and laid down action plans for the implementation of the PR schemes on waste electrical and electronic equipment ("WEEE") and glass beverage bottles, Phase 2 of the PR schemes on PSBs and the MSW charging scheme;
 - (b) according to the paper submitted by the Administration to LegCo Finance Committee in October 2014⁴, IWMF would be commissioned in 2022-2023; and
 - (c) EPD, the Census and Statistics Department ("C&SD") and the Customs and Excise Department ("C&ED") have implemented enhancement measures in the collection of data of export recyclables since 2014. C&SD has also implemented the enhanced quality check procedures since April 2014 by selecting a sample of trade declarants of domestic exports of waste plastics⁵ for checking. According to the results of the enhanced quality check procedures on domestic exports of waste plastics, less than 1% of the domestic exports of waste plastics should be re-exports in the third quarter of 2015;

⁴ Please refer to the paper submitted by the Environment Bureau to the Finance Committee in October 2014 (Enclosure to LC Paper No. FCR(2014-15)34A).

⁵ According to paragraph 2.10 of the Audit Report, traders may import recyclables, mainly waste plastics, from overseas.

- urges Secretary for the Environment to:
 - (a) consider developing a new and realistic blueprint setting out the revised waste management strategies having regard to the under-estimation of the remaining serviceable lives of the three landfills as well as the significant over-estimation of the MSW-generation quantities and MSW-recovery rates by the Administration, and consider allocating additional resources and manpower to enhancing the reduction and recycling of MSW;
 - (b) strengthen efforts to closely monitor the trend of per-capita-per-day MSW disposal and the implementation of all major environmental projects, and take early corrective actions in future with a view to meeting the targets set out in the 2013 Blueprint or any new blueprint to be developed by the Administration;
 - (c) strengthen efforts to continue the implementation of long-term policies formulated by the previous terms of Government as appropriate with a view to achieving the targets set with the consensus of the community;
 - (d) provide LegCo, in future, with more accurate estimation of the remaining serviceable lives of the three landfills as well as the underlying assumptions in the estimation with more quantitative information; and
 - (e) report to and consult LegCo and the public, in future, in a timely manner on any significant changes to major initiatives in MSW management; and
- urges Director of Environmental Protection to:
 - (a) take measures to improve the accuracy of statistics collected for evaluating the effectiveness of MSW related programmes;
 - (b) closely monitor the trend of important estimation relating to MSW, in particular the key performance indicators on Government's actions in managing MSW, to identify any anomalies or areas of concern and take appropriate follow-up actions as early as possible; and

- (c) expedite the implementation of IWMF, PR schemes, MSW charging scheme and OWTF with a view to meeting the targets set out in the 2013 Blueprint or any new blueprint to be developed by the Administration.

Specific comments

63. The Committee:

Reduction in MSW

- expresses alarm and finds it unacceptable that:
 - (a) the system used by EPD in estimating the key performance indicators on Government's actions in managing MSW had been faulty. Owing to the negligence on the parts of ENB and EPD in including unknown quantities of import recyclables in the estimation, two key performance indicators, namely the MSW-generation quantities and MSW-recovery rates, had been over-estimated;
 - (b) although under the trade-declaration system, "domestic exports" comprised both import recyclables processed in Hong Kong for export and locally-generated recyclables for export, ENB and EPD had adopted "domestic export" quantities as the locally-generated recyclable quantities and had not compared the figures with those gathered from its annual waste-recovery surveys, resulting in over-estimation of the latter;
 - (c) mainly due to increases in the quantities of import recyclables from 2005 to 2010, the MSW-generation quantity had increased by 15% from 6.01 million tonnes to 6.93 million tonnes during the period, and the MSW-recovery rate from 43% to 52%. Likewise, mainly due to decreases in the quantities of import recyclables after 2010, the MSW-generation quantity had decreased to 5.49 million tonnes and the MSW-recovery rate to 37% in 2013;
 - (d) partly due to the over-estimation of the MSW-generation quantities, in 2011, Hong Kong's per-capita-per-day domestic

MSW generation of 1.36 kg was much higher than those of Taipei City's 1.00 kg, Seoul City's 0.95 kg and Metro Tokyo's 0.77 kg;

- (e) notwithstanding that the over-estimation of the MSW-generation quantities and MSW-recovery rates had existed for many years, ENB and EPD have only since April 2014 adopted improvement measures together with C&SD and C&ED to collect additional data from exporters with a view to distinguishing between import recyclables processed for export and locally-generated recyclables for export which are both reported as "domestic exports" under the trade-declaration system;
- (f) the excess quantities of import plus locally-generated recyclables over export recyclables gave rise to concerns that some import recyclables might have been disposed of at local landfills;
- (g) as of January 2016, seven to nine years after the time targets for implementing the PR schemes on six products were set in the 2005 Policy Framework, the PR schemes on five products, namely WEEE, vehicle tyres, glass beverage bottles, packaging materials and rechargeable batteries, had not been implemented;
- (h) as of January 2016, while 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, the MSW charging bill would only be submitted to LegCo in 2016-2017 legislative session, nine years after the time target of 2007 set out in the 2005 Policy Framework;
- (i) while ENB and EPD had informed LegCo of the reduction in the number of pertinent PSBs being disposed of at landfills during the implementation of Phase 1 of the PR scheme on PSBs from 2009 to 2013, they had not informed LegCo of the insignificant impact of the PSB scheme on landfills which had only contributed to 11 544 tonnes of annual reduction in MSW disposed of at landfills as against the total quantity of 3.48 million tonnes of MSW disposal in 2013;
- (j) the number of pertinent PSBs being disposed of at landfills based on EPD's landfill-survey results was significantly greater than that of PSBs distributed by registered retailers at registered

outlets based on their returns, giving rise to concerns that the former might have been significantly over-estimated; and

- (k) EPD did not have statistics on the number of PSBs belonging to registered outlets being disposed of at landfills before and after the implementation of Phase 1 of the PR scheme on PSBs;
- recommends that Secretary for the Environment and Director of Environmental Protection should, in implementing similar schemes in future, in addition to the reduction in the number of PSBs being disposed of at landfills, provide LegCo with and publish information on the reduction in weight of PSBs being disposed of at landfills before and after implementation of the scheme;
- notes that:
 - (a) Secretary for the Environment and Director of Environmental Protection have agreed with the Audit Commission ("Audit")'s recommendations in paragraphs 2.34 and 2.52 of the Director of Audit's Report ("Audit Report"); and
 - (b) Commissioner for Census and Statistics and Commissioner of Customs and Excise have agreed with Audit's recommendations in paragraph 2.34(a) of the Audit Report;

Recovery of MSW

- expresses grave dismay and finds it unacceptable that:
 - (a) while the Food and Environmental Hygiene Department incurred about \$9,000 for engaging contractors to collect a tonne of recyclables from waste-separation bins in public places for delivery to approved recyclers, due to the lack of reporting requirements in Government contracts for collecting recyclables from waste-separation bins, EPD 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;
 - (b) ENB and EPD had used Hong Kong's over-estimated MSW-recovery rate of 48% in 2011 to compare with those of

Japan of 21% in 2010, Singapore of 48% in 2011, Taiwan of 52% in 2011 and South Korea of 61% in 2009;

- (c) in 2013 and 2014, only 26% and 12% respectively of waste plastics were recovered as compared with the recovery rates of 90% and 92% respectively for waste metals, and 61% and 58% respectively for waste paper for the two years; and
 - (d) in 2013, under EPD's Source-separation Programme, 51% of the 1 979 participating housing estates and 32% of the 860 participating C&I buildings did not provide EPD with statistics of the quantities of recyclables collected from waste-separation bins, thus adversely affecting assessment of the effectiveness of the programme;
- recommends that Secretary for the Environment and Director of Environmental Protection should take actions to ascertain and publish the quantities of recyclables collected from waste-separation bins which are disposed of at landfills due to contamination or other reasons;
 - notes that:
 - (a) Secretary for the Environment and Director of Environmental Protection have agreed with Audit's recommendations in paragraphs 3.20 and 3.39 of the Audit Report; and
 - (b) ENB and EPD plan to engage a consultant to conduct a review of the implementation of the Source-separation Programme and make recommendations to improve the programme, and will refine their promotion strategy in the light of the review;

Recycling of MSW

- expresses concern that:
 - (a) from 2011 to 2014, the actual throughput of Lot 1 of EcoPark, which commenced operation in January 2011, only accounted for 16% to 85% of the required throughput as specified in the tenancy;

- (b) at Lot 3 of EcoPark, the tenant only commenced recycling operation 24 months after the time specified in the tenancy, and had twice suspended the operation for 20 months and 8 months respectively;
 - (c) at Lot 4 of EcoPark, up to August 2015, the tenant had not commenced recycling operation five years after the commencement date specified in the tenancy, but EPD had not repossessed the site for re-letting;
 - (d) at Lots 9, 10 and 14 of EcoPark, up to August 2015, the tenants had not commenced recycling operation 29 months after the time specified in the tenancies;
 - (e) from July 2012 to August 2015, EPD had permitted five EcoPark tenants, including four who were profit-making organizations, to use areas in vacant Lots 15 and 16 for storage purposes free of charge for 92 days to 897 days; and
 - (f) from 2015-2016 onwards, of the 33 short-term-tenancy sites occupying a total area of 47 105 square metres for exclusive use by the recycling industry, 18 sites occupying a total area of 15 967 square metres (34%) would be taken back for land sale or other uses;
- notes that Secretary for the Environment and Director of Environmental Protection have agreed with Audit's recommendations in paragraph 4.30 of the Audit Report;

Treatment and disposal of MSW

- finds it appalling and inexcusable that:
 - (a) although 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, more than 63% of MSW was disposed of at landfills in 2013 and 2014 respectively;
 - (b) notwithstanding various actions taken by EPD in recent years with a view to reducing MSW generation and increasing MSW recovery, the MSW quantity disposed of at landfills had increased by 8.8% from 3.28 million tonnes in 2011 to

3.57 million tonnes in 2014, and the MSW per-capita-per-day quantity disposed of at landfills had increased by 6.3% from 1.27 kg in 2011 to 1.35 kg in 2014;

- (c) by comparing with Taipei city and South Korea, Hong Kong has only achieved about 14% decrease in the quantity of domestic/household MSW disposal over the past 20 years, while Taipei city and Seoul have achieved about 78% decrease and about 50% decrease in the quantity of domestic/household MSW disposal over the past 20 years and 18 years respectively⁶; and
 - (d) in informing LegCo in March 2012 that the three landfills would reach their capacities from 2014 to 2018, EPD did not provide LegCo with quantifiable information about the basis of estimation and the significant assumptions made in the estimation, such as using a conservative weight-to-volume ratio of 1 tonne of waste: 1 cubic metre of landfill space, and assuming annual growths in MSW and other waste being disposed of at landfills in spite of its stated efforts to reduce MSW generation and increase MSW recovery;
- notes that Secretary for the Environment and Director of Environmental Protection have agreed with Audit's recommendations in paragraph 5.21 of the Audit Report;

Way forward

- expresses serious concern that:
 - (a) with the implementation of the approved and proposed extension works, the three landfill sites would occupy a total area of 554 hectares of land, which is approximately the size of 550 standard football pitches. Notwithstanding this, Hong Kong's limited landfill space in the three landfills will be progressively used up in 8, 13 and 19 years respectively from present;
 - (b) 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; and

⁶ Please refer to paragraph (e) of **Appendix 8** for the trend of domestic/household MSW disposal in the three places provided by EPD.

- (c) despite the fact that a proposal for providing a waste-to-energy facility for MSW treatment was made as early as 1998, such facility would only be provided in 2023, and it would only then treat 1.1 million tonnes of MSW a year as against the total quantity of 3.57 million tonnes of MSW disposed of at landfills in 2014; and
- notes that Secretary for the Environment and Director of Environmental Protection have agreed with Audit's recommendations in paragraph 6.15 of the Audit Report.

Follow-up action

64. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by the Committee and Audit.

A. Introduction

The Audit Commission ("Audit") conducted a review of the reduction and recycling of food waste by the Government.

Background

2. Food waste comprises waste produced during food production, processing, wholesale, retail and preparation, as well as after meal leftovers and expired foods. At present, 99% of Hong Kong's food waste is disposed of at landfills together with other municipal solid waste ("MSW")¹. This current practice of disposing of biodegradable food waste at landfills is not sustainable and is environmentally undesirable as it depletes the limited landfill space, creates odour nuisance, generates leachate and landfill gases that require further mitigation measures to deal with, and squanders the useful organic contents.

3. In 2014, there were on average about 3 640 tonnes per day ("tpd") of food waste disposed of at landfills, which constitutes 37% of MSW disposed of at landfills² and is the largest MSW category being landfilled. Out of the 3 640 tpd, 72% (about 2 607 tpd) of the food waste came from households and 28% (about 1 033 tpd) from food-related commercial and industrial ("C&I") sources such as restaurants, hotels, wet markets, food production and processing industries. Compared to the actual food-waste disposal in 2004, the quantity of food waste disposed of at landfills had increased by 13% from 1.181 million tonnes to 1.329 million tonnes in 2014.

4. As the executive arm of the Environment Bureau ("ENB"), the Environmental Protection Department ("EPD") is responsible for implementing waste management policies and strategies.

5. In December 2005, 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 minimization; reuse, recovery and recycling; and bulk reduction and disposal of MSW, which included food waste and yard waste. The waste reduction and

1 Please see Chapter 1 of Part 8 of this Report for "Government's efforts in managing MSW".

2 There were on average 9 782 tpd of MSW disposed of at landfills in 2014.

recycling targets and related action plans were updated in January 2011. In May 2013, 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 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. In February 2014, 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.

6. In 2014-2015, the estimated recurrent expenditure of 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 Committee's Report

7. The Committee's Report sets out the evidence gathered from witnesses. The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 9);
- Reduction in food waste (Part B) (paragraphs 10 to 35);
- Recycling of food waste (Part C) (paragraphs 36 to 75);
- Way forward (Part D) (paragraphs 76 to 79); and
- Conclusions and recommendations (Part E) (paragraphs 80 to 82).

Public hearings

8. The Committee held two public hearings on 12 and 29 December 2015 to receive evidence on the findings and observations of the Director of Audit's Report ("Audit Report").

Opening statement by Secretary for the Environment

9. **Mr WONG Kam-sing, Secretary for the Environment**, made an opening statement at the beginning of the Committee's first public hearing held on 12 December 2015, the summary of which is as follows:

- the 2005 Policy Framework proposed to recover about 500 tonnes of food waste generated from C&I activities through source separation of food waste for biological treatment, such as composting and anaerobic digestion. Since then, the Government had implemented various pilot schemes promoting on-site food waste treatment and planned for the development of Organic Waste Treatment Facilities ("OWTFs") Phases 1 and 2. For promoting on-site food waste treatment, ENB and the Education Bureau ("EDB") jointly invited all schools in the territory to sign a Green Lunch Charter, which encouraged them to stop using disposable containers and adopt on-site meal portioning where possible to reduce food waste. The Environment and Conservation Fund ("ECF") would provide subsidies for existing schools to install the necessary equipment, while the standard design of new schools would cater for the mode of on-site meal portioning. Moreover, food waste recycling projects were also implemented in private housing estates for them to source-separate food waste for recycling to useful compost, and at the same time educate the public to reduce food waste;
- over the past decade, the Government had adopted a progressive approach in implementing various measures for enhancing community mobilization and education, facilitating different sectors in practising food waste reduction and source separation, as well as fostering behavioural changes, so as to get ready for the large-scale food waste recycling activities in future. Building on the efforts made and experience gained in the past years, the current-term Government had further consolidated the relevant strategies and measures, with the Food Waste Plan launched last year to provide a clear and holistic approach and strategy for its future work; and
- despite the continuous increase in economic activities and number of visitors in Hong Kong, the total amount of food waste disposed of in 2014 (about 1.33 million tonnes) did not show further increase as compared to 2013. Over the past two years, there had been noticeable changes in the awareness and behaviours in the community, e.g. the habit of taking food home after meals or more participation of the C&I sector in food donation, etc. The Administration would keep up its

efforts in promoting further reduction in food waste among various sectors according to the strategies and course of action set out in the Food Waste Plan.

The full text of Secretary for the Environment's opening statement is in **Appendix 14**.

B. Reduction in food waste

Government's strategies and measures

10. According to paragraph 4.5 of the Audit Report, the Government's actions taken before the publication of the 2014 Food Waste Plan to address the food-waste problem were piecemeal. The Committee asked whether the Secretary for the Environment agreed with this view, in particular whether the progress and achievement of the actions taken by the Administration so far to address this problem had not been satisfactory.

11. **Secretary for the Environment** said at the public hearing and **Ms Anissa WONG Sean-ye, Director of Environmental Protection**, supplemented in her letter dated 13 January 2016 (**Appendix 15**) that:

- a number of the actions and measures were initiated and launched before the promulgation of the 2014 Food Waste Plan. These measures and actions included, among others, the launch of Food Wise Hong Kong Campaign ("FW Campaign") in 2013, the private food waste treatment facility at EcoPark, and the planning & implementation of OWTFs; and
- ENB and EPD had been implementing the above actions step by step in a progressive manner. These past efforts were by no means "piecemeal" as they had been taken forward in line with the strategies and action items set out in the 2005 Policy Framework which covered food waste as well, and the 2013 Blueprint. These efforts served to achieve the action plans and target set out in the 2014 Food Waste Plan.

12. Upon the Committee's request, **Director of Environmental Protection** provided in her reply dated 13 January 2016 (**Appendix 15**) a table setting out the progress of major measures listed in the 2014 Food Waste Plan.

13. In response to the Committee's enquiry about the reasons for per-capita-per-day domestic food-waste generation of Hong Kong 85% higher than those of Taipei and Seoul in 2013, **Secretary for the Environment** said at the public hearing and **Director of Environmental Protection** supplemented at the public hearing and in her letter dated 23 December 2015 (*Appendix 16*) that:

- Hong Kong was primarily a service economy with a strong tourist component and had only a very limited agricultural base to provide suitable outlets (e.g. animal feed or compost) for food waste. This was different from other cities (e.g. Taipei) with a relatively large agricultural base around the city providing an important outlet for food waste. Also other cities had put in place MSW charging in 1990s or early 2000s which had proven to be very effective in reducing waste generation. Given the differences in socio-economic characteristics and the different stage of the policy development, the food waste management practices among different cities therefore could not be readily compared;
- Charts A and B of paragraph (a) of *Appendix 16* showed the trend of food waste in Hong Kong since 2004, and the key actions and measures taken on education and awareness, promotion of at source separation and recycling, as well as preparation for treatment facilities on food waste treatment. It was worthy to note that the combined efforts of these actions and measures had helped to moderate or stabilize the rate of growth of food-waste disposal despite the continuing rise in the economy and population in Hong Kong; and
- the Administration published the 2014 Food Waste Plan with a target of reducing food waste disposal at landfills by 40% in 2022. As an initial indication, the amount of food waste disposed of at landfills in 2014 was slightly reduced to 1.329 million tonnes, representing some 0.2% reduction in comparison with the 1.331 million tonnes in 2013. Using a per-capita basis, it also represented a reduction of some 1%, from 0.508 kg/person/day in 2013 to 0.503 kg/person/day in 2014.

14. According to paragraph 2.6(a) of the Audit Report, the 2005 Policy Framework set the target of reducing the quantity of MSW (including food waste) by 1% per annum up to 2014, using 2003 as the base year. However, according to Figure 3 in paragraph 2.11 of the Audit Report, from 2004 to 2013, the actual quantity of food-waste disposal had increased by 13% from 1.18 million tonnes to 1.33 million tonnes. The Committee asked for the reasons for the increase in the

quantity of food-waste disposal in this period, and the measures taken by EPD to tackle the food-waste problem during this period.

15. **Secretary for the Environment** said at the public hearing and **Director of Environmental Protection** stated in her letter dated 23 December 2015 (*Appendix 16*) that:

- from 2004 to 2013 when the actual quantity of food waste disposal had increased by 13%, Hong Kong's annual Gross Domestic Product ("GDP") 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);
- the domestic food waste disposal on a per-capita basis had dropped from about 0.42 kg/person/day in 2003 (base year of the 2005 Policy Framework) to about 0.36 kg/person/day in 2014, by about 14%. Within the same period, C&I food waste had increased from about 0.08 kg/person/day to about 0.14 kg/person/day, showing some correlation with the increasing trend in GDP and the number of tourists in Hong Kong. From 2005 to 2014, the total restaurant receipts in Hong Kong increased by some 29% in real terms (according to the volume index of total restaurant receipts compiled by the Government); and
- the Administration had put forward proposals and action plans, and had taken actions to tackle the problem of food waste from 2005 and 2013 as shown in the following:
 - (a) from 2005 to 2009, the Administration had developed the Kowloon Bay Pilot Composting Plant ("the Pilot Plant") to prepare for large-scale food-waste recycling in future; and initiated the site search, the environmental impact assessment ("EIA") and Engineering Feasibility Study for OWTF Phase 1;
 - (b) in April 2009 and January 2011, ENB submitted the paper "Update on the Progress of The Key Initiatives in the Policy Framework for the Management of MSW (2005-2014)" to the Legislative Council ("LegCo") Panel on Environmental Affairs ("EA Panel") on the relevant initiatives, including ECF's support for on-site treatment, as well as planning and development of

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OWTF Phases 1 and 2. From 2009 to 2011, the Administration had formed a partnership programme with key food waste generators in the C&I sector with a view to setting up the delivery and collection protocol, so that their food waste generated could be delivered for treatment at OWTFs when commissioned. The Administration had also launched the Food Waste Recycling Projects in Housing Estates and completed the EIA for OWTF Phase 1;

- (c) in March 2012, ENB submitted the Paper "Reduce, Recycle and Proper Waste Management" to EA Panel and further updated the progress of various initiatives and plans. From 2011 to 2013, the Administration had carried out the pre-qualification and tendering for OWTF Phase 1 (and the retendering for OWTF Phase 1 due to very high returned tender prices). The Administration had also initiated a further site search for more OWTFs in addition to OWTF Phases 1 and 2; and
- (d) from 2013 to late 2015, the Administration had launched the FW Campaign to raise awareness and enhance community support to prevent and reduce food waste. EIA and feasibility studies for OWTF Phase 2 were also completed. The Administration had also discussed with the C&I sector on the delivery of food waste to OWTF Phase 1 and engaged a service contractor to facilitate the C&I sector to make arrangement for delivering food waste to OWTF Phase 1.

16. The Committee noted from paragraph 2.7 of the Audit Report that in the 2014 Food Waste Plan, ENB for the first time, set a target of reducing food-waste disposal at landfills by 40% by 2022, using 2011 as the base year. According to Figure 3 in paragraph 2.11 of the Audit Report, food-waste disposal had increased from 1.31 million tonnes in 2011 to 1.33 million tonnes in 2013. In view of the increase in food-waste disposal during this period and the inadequacies identified in the Audit Report on the reduction and recycling of food waste, the Committee asked for the measures, including setting any mid-term targets, enhancement of monitoring mechanisms, etc., to be taken by EPD to achieve the 40% food-waste reduction target by 2022.

17. **Secretary for the Environment** said at the public hearing and **Director of Environmental Protection** supplemented in her letter dated 23 December 2015 (*Appendix 16*) that:

- the 2014 Food Waste Plan analyzed the current situation of food waste in Hong Kong, and mapped out a comprehensive strategy, targets, policies and action plans in the coming years with a view to tackling the challenge faced in Hong Kong to meet the target of reducing food-waste disposal at landfills by 40% by 2022, using 2011 as the base year;
- ENB had taken into consideration the growth in GDP when setting the specific target for reducing food waste disposal at landfills by 40% by 2022 in the 2014 Food Waste Plan;
- the 2014 Food Waste Plan also set out the four main components of food waste management, including:
 - (a) prevention and reduction of food waste at source, such as the implementation of FW Campaign;
 - (b) donation of surplus food for human consumption;
 - (c) recycling to recover energy and nutrients, in particular the collection and transportation of food waste to OWTF for treatment; and
 - (d) the availability of adequate facilities to treat and disposed of food waste.

The above four measures must be implemented step by step in order to achieve the target in the 2014 Food Waste Plan;

- based on the experience of other places, it would take some time before the Administration could achieve meaningful reduction in the quantities of food waste being disposed of at the landfills. The Administration had therefore not set a mid-term target in the 2014 Food Waste Plan. As the Plan had only been introduced for one year, the Administration was working diligently to implement/launch all necessary policy measures and programmes to achieve the target and make any corrective/enhancement actions as necessary to ensure that the food waste reduction target would be met; and

- the Administration was conducting a food waste survey and audit for the food and beverage sector with a view to providing information to evaluate the effectiveness of the FW Campaign in the sector. Ultimately, the question of whether the Administration was on track to meeting the reduction target set in the 2014 Food Waste Plan would be captured in its annual waste disposal survey.

FW Campaign

18. According to paragraph 2.26 of the Audit Report, in order to monitor the progress of the implementation of the FW Campaign and assess the extent of achievement in food-waste reduction, EPD requested the signees of the Food Wise ("FW") Charter to submit returns on their food-waste reduction through implementing planned actions. However, according to paragraphs 2.29 and 2.31 of the Audit Report, only 26 (2.5%) of the total 1 027 returns that should have been submitted by signees of the FW Charter contained measurable food-waste-reduction data, and EPD had only called for 808 returns (79%) and omitted to call for 219 returns (21%). In this regard, the Committee enquired about:

- the actions to be taken by EPD to encourage the submission of returns;
- the measures taken/to be taken by EPD to prevent recurrence of the omission to call for returns; and
- how EPD would monitor and review the effectiveness of the FW Campaign given the low response rate.

19. **Mr Elvis AU Wai-kwong, Assistant Director (Nature Conservation and Infrastructure Planning) of EPD**, said at the public hearing and **Director of Environmental Protection** stated in her letter dated 23 December 2015 (*Appendix 16*) that:

- although the Charter Scheme was on a voluntary basis, EPD would strengthen its efforts to encourage and facilitate FW Charter signees to provide returns and related measurable data, such as issuing reminders and contacting signees to understand the difficulties they had. In addition, EPD would enhance the 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

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website and facebook so that signees could make reference to them to learn and build up their food waste reduction and monitoring practices;

- EPD would deploy additional resources to strengthen the efforts in checking the procedures of calling for returns to ensure that no omission would happen again; and
- FW Charter was one of the nine programmes under the FW Campaign. Signing the FW Charter was only one of the many ways that government departments, non-governmental organizations ("NGOs") and private organizations could contribute to the food-waste reduction efforts. The effectiveness of the FW Campaign should not be measured merely by the response rate of returns from signees of the FW Charter Scheme. Instead, this Campaign was to promote the behavioural changes, educate/establish and adopt good practices in various sectors of the community. The effectiveness of the campaign should be assessed holistically through more scientific and subjective approach, such as the food waste survey and audit for the food and beverage sector, and ultimately the disposal quantity of food waste at landfills.

20. In reply to the Committee's request, **Director of Environmental Protection** provided the total expenditure for the FW Campaign and the actions taken by EPD in each stage of the Campaign in her reply dated 23 December 2015 (*Appendix 16*).

Coordination among government departments

21. The Committee noted from paragraph 2.17(b) of the Audit Report that one of the objectives of the FW Campaign was for EPD to coordinate efforts within the Government and public institutions to lead by example in food-waste reduction. According to paragraphs 2.22 and 2.24 of the Audit Report, as of June 2015, of the 12 government departments invited by EPD from May to October 2013 to sign the FW Charter, eight had not signed the Charter. Of the eight government departments, six signed the FW Charter only after Audit had commenced the review. In this regard, the Committee asked for the actions taken by EPD from October 2013 to June 2015 to follow up this matter with the government departments which had not signed the FW Charter.

22. **Director of Environmental Protection** explained at the public hearing and in her letter dated 23 December 2015 (*Appendix 16*) that:

- from October 2013 to June 2015, EPD worked together with government departments in implementing the FW Campaign and helping to promote food wise message. Representatives from government departments including the Food and Environmental Hygiene Department ("FEHD") and Housing Department ("HD") attended various meetings of Project Steering Committee and Sub-Committee of FW Campaign to make contributions to the Campaign. They also participated in working groups on preparation of Good Practices Guides such that a total of six Food Waste Reduction Good Practice Guides had been issued and made available for the community for reference. In addition, EPD had also liaised with various government departments (including FEHD, HD, the Correctional Services Department ("CSD") and the Hong Kong Police Force) from time to time in providing FW posters for facilitating them to spread out the food wise messages;
- EPD also invited government departments having in-house catering services and/or food-waste generation establishments within the facilities managed by them to sign the FW Charter. Whilst some departments raised concerns on the requirements and commitments under the FW Charter, after clarifications and experience sharing of those departments that had signed the FW Charter, six additional government departments listed in Table 2 of the Audit Report³ had subsequently signed the FW Charter; and
- a number of initiatives and actions had also been taken by government departments for helping to reduce food waste. For example, HD implemented food waste reduction and recycling programme as detailed in Part 3 of the Audit Report.

23. In reply to the Committee's request, **Commissioner of Correctional Services** provided in his reply dated 22 December 2015 (*Appendix 17*) a list of measures that CSD had taken and would take to further minimize food waste in CSD institutions, in particular for those institutions with a relatively high per-person-in-custody-per-day quantity of food waste.

³ The six departments were the Auxiliary Medical Service, CSD, the Customs and Excise Department, the Hong Kong Police Force, the Government Property Agency and the Leisure and Cultural Services Department.

24. Upon the Committee's request, **Chief Executive, Hospital Authority**, also provided in his reply dated 22 December 2015 (*Appendix 18*) the measures that the Hospital Authority ("HA") had taken and would take to further minimize food waste in HA hospitals, in particular for those hospitals with a relatively high per-in-patient-per-day food-waste quantity.

Food-waste reduction in the public markets under the management of FEHD

25. In response to the Committee's enquiry regarding the measures that FEHD had taken/would take to encourage the reduction of food waste in the public markets under its management, **Miss Vivian LAU Lee-kwan, Director of Food and Environmental Hygiene**, explained at the public hearing and in her letter dated 24 December 2015 (*Appendix 19*) that:

- FEHD had put in place a series of measures on reduction and recycling of food waste, such as:
 - (a) participation in EPD's FW Campaign and in drafting Food Waste Reduction Good Practice Guide for the market sector;
 - (b) installation since end-2012 on a trial basis a food waste composter at a public market (i.e. Tai Shing Street Market) for on-site conversion of food waste into compost; and
 - (c) participation in the Food Waste Recycling Partnership Scheme ("the Partnership Scheme") organized by EPD, including nomination of some public markets to participate in the Scheme; and
- while resources and expertise permitted, FEHD would continue to work in collaboration with EPD and provide support to its food waste reduction initiatives. Measures under consideration included:
 - (a) FEHD planned to set aside some areas in certain public markets for suitable NGOs identified by EPD to set up food collection points in order to facilitate NGOs' collection of food donated by market stall tenants to the needy. FEHD and EPD were studying the specific arrangements; and
 - (b) EPD was planning source-separated food waste collection from public markets for delivering to and treatment at OWTF.

FEHD and EPD were discussing the source-separated food waste collection arrangements and division of work.

Food-waste reduction at schools

26. According to paragraph 2.54(a) of the Audit Report, as stated in the 2009-2010 Policy Address, to further reduce food waste and disposable lunch boxes, schools were encouraged to stop using disposable containers and adopt on-site meal portioning where possible. According to paragraph 2.63 of the Audit Report, EPD's latest survey conducted in 2010 showed that only 12% of students taking lunch at school took lunch through the on-site meal portioning arrangement, and 46% of those students used disposable containers. In this regard, the Committee asked for the actions taken/to be taken by EPD to improve the above situation.

27. **Director of Environmental Protection** stated in her letter dated 23 December 2015 (*Appendix 16*) that:

- EPD and EDB issued a joint letter on 7 December 2015 to all primary and secondary whole-day schools encouraging those schools that had not yet adopted on-site meal portioning to apply for ECF for implementing on-site meal portioning;
- up to December 2015, applications from 114 whole-day schools had been approved by ECF and six applications were being considered. EPD, in collaboration with EDB, would continue to encourage whole-day schools to adopt green lunch practices including reviewing the relevant guidelines and circulars and commending schools with good performance. EPD together with EDB would also explore arranging sharing sessions with schools on the successful implementation of on-site meal portioning and other green lunch practices in schools; and
- according to the surveys on 114 schools adopting on-site meal portioning funded by ECF, it was estimated that around 56 000 students had benefited from taking lunch at school through on-site meal portioning. These students would no longer take lunch using disposable containers. EPD, with the support from EDB, was now considering conducting a survey on the lunch practice of all whole-day schools in 2016, including the use of disposable lunch boxes and food-waste quantities. Based on the data collected from the

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survey, they would also review the targets on reduction of using disposable lunch boxes at schools.

28. In response to the Committee's enquiry on the actions that would be taken by EDB to further promote green lunch practices among schools, **Mr Kevin YEUNG Yun-hung, Under Secretary for Education**, said at the public hearing and **Secretary for Education** stated in his letter dated 22 December 2015 (*Appendix 20*) that through circulars and guidelines, EDB would advise schools to formulate policies and follow the principles of reducing waste and minimizing wastage at all times in meal arrangements, and to implement appropriate measures to ensure that the lunch suppliers would provide students with healthy and green lunch.

29. **Secretary for Education** further explained that students' conscious effort to reduce food waste was a determining factor for the effectiveness of the measures. All along, elements of environmental education had been infused in different subjects of the school curriculum to nurture in students a sense of responsibility towards the environment and encourage them to take positive initiatives in improving the environment. EDB would continue its efforts to raise students' awareness and consciousness of environmental protection including reducing food waste through development of learning and teaching resources. In collaboration with EPD, professional development programmes would also be organized for teachers to enhance their professionalism and share the good practices of schools in this regard.

30. According to paragraphs 2.74 and 2.75 of the Audit Report, of the 32 schools approved with ECF funding in or after July 2011 (they were required to provide food-waste quantities as a condition of receiving ECF funding), only five schools (16%) had provided food-waste quantities both before and after adopting on-site meal portioning, and 15 schools (47%) had not provided any related information. The Committee asked for the follow-up actions that the Administration had taken on this issue and the difficulties encountered by the 15 schools that had not provided the latest information.

31. **Director of Environmental Protection** stated in her letter dated 23 December 2015 (*Appendix 16*) that the ECF Secretariat issued follow-up letters on 3 November 2015 to all the 32 schools approved with ECF funding in or after July 2011 reminding them to provide food waste quantities both before and after adopting on-site meal portioning as required under the conditions of receiving funding from ECF. As at 15 December 2015, out of the 32 schools, 26 schools had

already provided the food waste quantities after adopting on-site meal portioning. Some schools which had already implemented on-site meal portioning before the 2015-2016 school term explained that they had not maintained the old food waste data and had difficulties to provide the food waste quantities before adopting on-site meal portioning. As the submission of returns was an on-going exercise, EPD expected receiving more returns in the 2015-2016 school term.

32. **Under Secretary for Education** said at the public hearing and **Secretary for Education** stated in his letters dated 22 December 2015 and 6 January 2016 (*Appendices 20 and 21* respectively) that some schools might not have the required knowledge about how to measure food-waste quantities. EDB would liaise with EPD on issuance of guidelines to schools on the methodologies of measuring food-waste quantities. In collaboration with EPD, EDB would arrange to explain the relevant details to schools through suitable means such as seminars, sharing sessions or workshops.

33. As revealed in paragraph 2.81 of the Audit Report that four new schools installed with on-site meal portioning facilities had not adopted on-site meal portioning, the Committee asked for the progress of following up with these four new schools.

34. **Under Secretary for Education** said at the public hearing and **Secretary for Education** explained in his letters dated 22 December 2015 and 6 January 2016 (*Appendices 20 and 21* respectively) that:

- EDB issued letters to the four schools in late November 2015 to ascertain the reasons for not implementing on-site meal portioning. While one school had already implemented on-site meal portioning since the commencement of the 2015-2016 school year, site visits were paid to the remaining three schools to understand the problems encountered; and
- one school was found to have adopted food portioning in classroom which could achieve similar effect as on-site meal portioning. For the remaining two schools, despite the difficulties in implementing on-site meal portioning, they had also taken suitable green lunch measures, such as using reusable containers and cutlery. EDB would further liaise with these two schools in collaboration with EPD and offer assistance to help them overcome the difficulties. Other possible

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means to reduce food waste such as requiring lunch suppliers to portion cooked food and pack lunch in reusable and thermal containers before delivering to schools for distribution to students would also be explored.

35. In response to the Committee's enquiry on the actions that would be taken to ensure that new schools installed with on-site meal portioning facilities would adopt on-site meal portioning, **Secretary for Education** stated in his letter dated 22 December 2015 (*Appendix 20*) that during the design and building stage of the school premises, EDB would inform the school sponsoring body that on-site meal portioning facilities had been included as standard facilities and require them to adopt on-site meal portioning as far as practicable. Upon handing over of the school premises to the school, school development officers of EDB would follow up the implementation plan of the school and provide necessary assistance to ensure that the school would adopt on-site meal portioning unless there were exceptional circumstances with justifiable reasons. In the light of experience and different practices of schools in implementing on-site meal portioning, EDB also planned to review and explore viable measures to facilitate schools to adopt different modes of meal portioning taking into account the diversified circumstantial factors and school-based needs.

C. Recycling of food waste

The Pilot Plant

36. According to paragraphs 3.7 and 3.11 of the Audit Report, in April 2009 and March 2010, EPD informed EA Panel that the Pilot Plant would be capable of receiving up to four tpd of source-separated food waste from C&I premises, and this quantity of food waste could be perceived as the net quantity of food waste to be treated a day. The Committee asked why EPD had not clearly stated in the papers submitted to EA Panel that the four tpd figure included bulking agents and other non-food-waste materials.

37. **Assistant Director (Nature Conservation and Infrastructure Planning) of EPD** said at the public hearing and **Director of Environmental Protection** stated in her letter dated 23 December 2015 (*Appendix 16*) that:

- the four-tpd of source-separated food waste figure as stated in the papers submitted to EA Panel referred to the total capacity of organic

waste (including food waste, bulking agents (e.g. bark chips and saw dust) and premature compost) that the Pilot Plant could handle. The addition of bulking agents and premature compost was required to achieve composting of food waste though the exact proportion of them to food waste was subject to trial for local conditions. As the Pilot Plant was to deal with "food waste", the Administration generalized to adopt the term "food waste" instead of referring to the various components of "organic waste" to be treated at the Pilot Plant; and

- there was no intention to mislead EA Panel in any way as the Pilot Plant was not set up as a regular waste treatment facility. Rather it was intended to be used for demonstration and educational purposes to encourage source separation of food waste among the C&I sector. In hindsight, the use of the term "organic waste" would better describe the actual process materials being used at the Pilot Plant.

38. The Committee noted from paragraph 3.12 of the Audit Report that in the first half of 2015, the average quantity of food waste treated at the Pilot Plant was 0.65 tpd, representing only 47% of its treatment capacity of 1.37 tpd (which was the equivalent of four tpd after considering the bulking agents and other non-food-waste materials). The Committee enquired about the reasons for the low utilization of the Pilot Plant and the measures taken/to be taken by EPD to improve this utilization rate.

39. **Assistant Director (Nature Conservation and Infrastructure Planning) of EPD** said at the public hearing and **Director of Environmental Protection** stated in her letter dated 23 December 2015 (*Appendix 16*) that:

- the Pilot Plant was set up as a demonstration facility which formed an integral part of the Partnership Scheme launched in 2010. The Partnership Scheme aimed to promote food waste collection and source-separation among the C&I sector. Since 2010, over 190 organizations had participated in the Partnership Scheme and their frontline staff had become familiar with the practices of collection and source-separation of food waste. Several good practice guides for the C&I sector had been developed through the Partnership Scheme for wider sharing within the C&I sector;
- the participation by C&I premises in the Partnership Scheme was on a voluntary basis. Each participant would commit to deliver food waste

within an agreed project period of three to six months. 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 together with the constraints of the collection and delivery within the premises and shopping malls before the delivery to the Pilot Plant; and

- ENB/EPD would strengthen the efforts to encourage more C&I premises to participate in the Partnership Scheme. They planned to conduct pro-active food waste collection services at FEHD's wet markets to facilitate stall owners to dispose of source-separated food waste conveniently near their stalls. They would also reach out to more individual restaurants, hotels and shopping malls to engage their participations, coupling with the provision of technical supports, guidelines and training to the C&I sector to facilitate their implementation on food waste reduction, source separation and recycling.

OWTFs

40. Regarding the daily capacities of 200 tpd and 300 tpd of food waste treated by OWTF Phases 1 and 2 respectively, the Committee asked whether these daily capacities represented the net food waste quantity or included other types of non-food-waste materials.

41. **Assistant Director (Nature Conservation and Infrastructure Planning) of EPD** said at the public hearing and **Director of Environmental Protection** stated in her letter dated 2 December 2015 (*Appendix 22*) that:

- the food waste treatment processes adopted for OWTF Phases 1 and 2 were different from the one adopted for the Pilot Plant. The latter adopted a one stage aerobic composting process to turn food waste into compost. On the other hand, OWTF Phases 1 and 2 were designed for a 2-stage process, with stage 1 using anaerobic digestion as the core technology to produce energy; and stage 2 using composting to further process the residue to become compost as side products. During the anaerobic digestion process, no bulking or other agent was required; and

- the design capacity of the OWTF Phases 1 and 2 for treating food waste was 200 tpd and 300 tpd respectively in the anaerobic digestion system.

42. The Committee noted from paragraphs 3.15 to 3.17 of the Audit Report that the projected commissioning dates for OWTF had been postponed repeatedly. For example, the projected commissioning date for OWTF Phase 2 had been postponed from 2017 under the 2013 Blueprint to end 2018 under the 2014 Food Waste Plan, and further to 2020 according to EPD. The Committee enquired about the reasons for the postponement and the updated progress of the implementation of OWTF Phases 1 to 3.

43. **Secretary for the Environment** said at the public hearing and **Director of Environmental Protection** stated in her letter dated 23 December 2015 (*Appendix 16*) that:

- in the 2014 Food Waste Plan, it was planned that the three OWTFs would be commissioned by 2022. This latest programme in the Food Waste Plan for the three OWTFs had taken into account the progress and the experience gained from the implementation of OWTF Phase 1, the preparation in the C&I sector for food waste source separation and the delivery as well as other latest relevant circumstances; and
- following the funding approval of OWTF Phase 1 on 24 October 2014, the Administration awarded the contract in December 2014 for commissioning the facilities in mid-2017. The EIA and Engineering Feasibility Study for OWTF Phase 2 had been completed and the project was anticipated to commence tendering in mid-2016 with a view to commencing operation by 2020. With this programme, the Administration planned to seek funding approval from LegCo for OWTF Phase 2 in 2017. A site in Shek Kong had also been earmarked for OWTF Phase 3 and the Administration would take forward its EIA and Engineering Feasibility Study in 2016, with a view to commencing its operation by 2022. The Administration would continue to take all necessary steps to expedite the programme wherever practicable.

Tender exercises for OWTF Phase 1

Consultancy services

44. According to paragraph 3.18 of the Audit Report, in August 2008, EPD appointed a consultant ("the Consultant") at a lump-sum price of \$6.2 million for carrying out engineering feasibility study, project cost estimation, EIA study and tendering for appointing a contractor for OWTF Phase 1. However, according to paragraphs 3.23 and 3.28 of the Audit Report, the tender exercise for the project carried out in 2011 was cancelled in the public interest. 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 (the estimated cost was \$1,532.8 million in 2014). Under the above circumstances, the Committee asked for reasons for significantly under-estimating the project cost in 2010, the scope of service provided by the Consultant and whether EPD had assessed its performance.

45. **Assistant Director (Nature Conservation and Infrastructure Planning) of EPD** said at the public hearing and **Director of Environmental Protection** stated in her letter dated 23 December 2015 (*Appendix 16*) that:

- EPD appointed a consultant in August 2008 for carrying out engineering feasibility study, project cost estimation, EIA study and tendering preparation and evaluation of the OWTF Phase 1 project;
- as this project was the first of its kind in Hong Kong with limited cost reference information, the actual process adopted for the project was to conduct EIA and engineering feasibility studies, develop the project requirements, prepare tender specifications and carry out the tender exercise before finalizing the project estimate and before the submission to the Public Works Subcommittee ("PWSC") for funding approval. Key requirements had been set out in the June 2011 tender document. After careful consideration, EPD considered it the most suitable and appropriate process to reflect the most up-to-date market prices and conditions, and to come up with a reliable project estimate for consideration by members of PWSC;
- EPD completed a detailed evaluation of the returned tenders including price analysis for the first tender exercise in March 2012. The analysis showed that the returned tender prices were unreasonably high when compared with the updated estimates based on the latest market

prices. EPD's assessment identified that the probable causes of the high returned tender prices were due to the high premium allowed for the escalating labour and construction costs, lack of local references in the local market, uncertain amount of waste to be collected, financial costing and requirement for fully standby equipment rather than any default of the Consultant's work. These factors were unforeseen before the return of the tenders; and

- EPD considered the Consultant had reasonably discharged its duties in accordance with the requirements under the assignment. EPD had followed the established administrative procedures for the management of consultants' performance to assess and evaluate the Consultant's performance quarterly throughout the consultancy study and the records showed that the overall performance of the Consultant was considered satisfactory throughout the consultancy study period.

46. In reply to the Committee's request, **Director of Environmental Protection** provided in her reply dated 13 January 2016 (*Appendix 15*) the extracts of the relevant provisions in the consultancy agreement made in relating to OWTF Phase 1 project on protecting the Government's interests against unsatisfactory performance of the Consultant.

47. According to paragraph 3.28(c) of the Audit Report, in September 2011, EPD requested the same Consultant to carry out a natural terrain hazard study at an additional cost of \$0.8 million. The Committee enquired about the reasons for EPD to further request the same Consultant to carry out the natural terrain hazard study at an additional cost of \$0.8 million.

48. **Director of Environmental Protection** explained in her letter dated 13 January 2016 (*Appendix 15*) that:

- it was noted that a natural terrain hazard study and any appropriate mitigation measures, if found necessary, should be carried out as part of the proposed development when the Permanent Government Land Allocation for this project was circulated for comment in June 2011. While awaiting the Lands Department to finalize the engineering conditions for the Permanent Government Land Allocation, it was considered necessary to instruct the Consultant to carry out the natural

terrain hazard study to assess the requirements of the slope and natural terrain protection works;

- the Consultant had been involved in the agreement since 2008 and their extensive knowledge of the project would enable timely completion of the natural terrain hazard study without the need to familiarize with the project background and to review the relevant reports and documents again. This could minimize the time taken for the study and ensure better coordination; and
- the cost of the additional service to be charged by the Consultant was a lump sum fee of \$796,000. Given the large catchment area of the study and the scope of work listed above, it was considered reasonable to utilize the recommended level of manpower for this study. Based on the manpower requirements recommended by the Consultant, the scope of service, the man-hour charge rates, the cost of the additional service was assessed as reasonable and acceptable.

49. The Committee also noted from paragraph 3.25 of the Audit Report that, in July 2012, after consulting EPD's legal adviser, EPD instructed the same Consultant to carry out additional services relating to the re-tender exercise for the project at a lump-sum fee of \$1.8 million. The Committee asked why EPD had instructed the same consultant to carry out additional services relating to the re-tender exercise for the OWTF Phase 1 project.

50. **Director of Environmental Protection** explained in her letter dated 13 January 2016 (*Appendix 15*) that after the cancellation of the first tender exercise for the OWTF Phase 1 project in public interest in 2012, EPD needed to explore practicable measures to address the main causes of the unreasonably high returned tender prices, with a view to identifying appropriate revisions to the tender documents and initiating the re-tendering process. It was therefore necessary to instruct the Consultant to carry out additional services relating to the above via a supplementary agreement.

Parallel-tendering approach

51. According to paragraph 3.20 of the Audit Report, EPD had adopted the parallel-tendering approach in the OWTF Phase 1 project. The Committee asked

for the assessment made by EPD on the risks involved in initiating a procurement exercise before funding was secured for the project.

52. **Assistant Director (Nature Conservation and Infrastructure Planning) of EPD** said at the public hearing and **Director of Environmental Protection** explained in her letter dated 13 January 2016 (*Appendix 15*) that:

- in deliberating on the appropriate tendering approach, EPD had assessed the risks involved in initiating a procurement exercise before funding was approved in accordance with the Financial Circular No. 2/2009. When EPD reported to EA Panel in April 2009 on the updated progress of the 2005 Policy Framework, the proposal for developing the OWTF Phase 1 was discussed. EPD also consulted the two relevant District Councils, Tsuen Wan District Council and Islands District Council, on the proposed OWTF Phase 1 project in 2010. EPD therefore considered that the risk for facing negative reaction leading to Government to abort the tender due to lack of funding or substantive last-minute changes to the scope of the proposed works low; and
- in addition, EPD considered that as the proposed OWTF would be the first of its kind in Hong Kong, there would be high degree of uncertainty in its cost estimates. Parallel tendering was recommended to provide reliable cost estimates before funding approval from LegCo was sought.

53. In reply to the Committee's request, **Director of Environmental Protection** provided in her reply dated 13 January 2016 (*Appendix 23*) the record showing the application made by EPD and the approval of the Secretary for the Environment for initiating parallel tendering for the OWTF Phase 1 project.

Significant under-estimation of project cost of OWTF Phase 1

54. According to paragraph 3.23(b) of the Audit Report, the tender prices of the OWTF Phase 1 project received were unreasonably high when compared with updated estimates, and the project cost could be reduced by introducing some cost-reduction measures as detailed in the paragraph. The Committee asked for the reasons for not incorporating the above cost-reduction measures in the original tender.

55. **Assistant Director (Nature Conservation and Infrastructure Planning) of EPD** said at the public hearing and **Director of Environmental Protection** stated in her letter dated 23 December 2015 (*Appendix 16*) that:

- the probable causes of the high returned prices were more related to the high premium demanded for mitigating the construction, financing and operation risks perceived by the tenderers due to the market volatility since 2010. These factors were unforeseeable before the return of the tenders in the 2011 tender exercise. The Administration had subsequently identified scope to suitably adjust the performance requirements without adversely affecting the operational and environmental standards expected of the OWTF project. Having regard to the above, the Administration introduced appropriate measures to balance the construction and price risks to both the Administration and the Contractor with a view to lowering the capital and operating costs;
- the risk sharing measures were based on the actual feedback from the tenderers through the tendering process for this particular project to reflect their assessment of and responses to their perception of risks at the time of tendering in the light of the actual market conditions at that time; and
- the Administration carried out a re-tendering exercise through open tendering in February 2013 and awarded the contract in December 2014. The capital cost of the awarded contract was substantially lower than the returned tender prices in the 2011 tender exercise.

56. In reply to the Committee's request, **Director of Environmental Protection** provided in her reply dated 13 January 2016 (*Appendix 24*) a summary of key features/items for inclusion of updated and modified requirements to the tender documents in 2013 for OWTF Phase 1 project as compared to that of the tender exercise in 2011.

57. According to paragraph 3.27(b) of the Audit Report, ENB/EPD informed EA Panel in March 2014 that a reason for the significant increase in the project cost estimate was the need to operate the OWTF Phase 1 for 24 hours a day and to provide pre-treatment and waste-water treatment facilities. However, according to paragraph 3.28(b) of the Audit Report, the EIA report approved 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 Committee asked why these associated costs had not been included in the project cost estimate of \$489 million made in 2010.

58. **Director of Environmental Protection** stated in her letter dated 23 December 2015 (*Appendix 16*) that upon the completion and approval of the EIA report in February 2010, EPD carried out 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 requirements included the detailed design and development works for the major equipment and facilities, namely the pre-treatment facilities, the anaerobic digestion process, the biogas treatment and storage facilities, the waste-water treatment facilities and the odour control facilities, to cater for scheduled maintenance, major overhauls, variation in quality of incoming food waste and inclement weather conditions to ensure the plant's continuous operation. These detailed design and development works and the corresponding project specifications and requirements had been properly incorporated in the 2011 tender documents.

59. The Committee also noted from paragraph 3.27(c) of the Audit Report that ENB/EPD informed EA Panel in March 2014 that a reason for the significant increase in the project cost estimate was the need to carry out natural terrain and slope protection cum mitigation works. However, according to paragraph 3.28(c), EPD only requested the Consultant to carry out a natural terrain hazard study in 2011, leading to the omission of the required slope mitigation works costing \$66.7 million in the project cost estimate of \$489 million made in 2010. The Committee asked why a natural terrain hazard study had not been conducted before making the project cost estimate in 2010, and the measure that EPD would take to prevent recurrence of such omissions.

60. **Director of Environmental Protection** explained in her letter dated 23 December 2015 (*Appendix 16*) that:

- before the close of tender in November 2011, EPD had taken the step to inform the tenderers on 21 September 2011 that slope mitigation and/or stabilization works might be required and the Contractor would be informed and might be required to undertake the necessary slope mitigation and/or stabilization and maintenance works via tender addendum;

- the Consultant submitted the preliminary natural terrain hazard study Report to EPD on 29 November 2011 confirming that there were no insurmountable natural terrain hazard or slope instability issues that would affect the feasibility of the project. If the 2011 tender exercise was not cancelled on public interest ground, EPD could instruct the Contractor to carry out any necessary slope and natural terrain protection works via a variation order. The necessary natural terrain and slope protection mitigation requirements had been properly incorporated in the 2013 tender exercise and the cost of the required works had been reported in the paper submitted to EA Panel in March 2014. There was no omission of works and no implication on the overall project implementation and the project cost of the OWTF Phase 1 project; and
- in implementing a works project in future, the Administration would take measures to ensure that significant work requirements were included in a consultancy agreement. These measures would include the circulation of the draft consultancy brief to concerned government bureaux and departments for inputs and comments, and the undertaking of internal review of the draft consultancy brief before consultancy award.

61. The Committee further noted from paragraph 3.27(d) of the Audit Report that ENB/EPD informed EA Panel in March 2014 that a reason for the significant increase in the project cost estimate was the need to finalize the quantity of surplus electricity for the design of power generators and associated control system. However, according to paragraph 3.28(d) of the Audit Report, as early as November 2010, EPD had informed EA Panel that OWTF Phase 1 was a waste-to-energy facility and up to 28 million kilowatt-hour ("kWh")(EPD informed Audit in October 2015 that "28 million kWh" should read "14 million kWh") of surplus electricity could be exported every year for the adequate use of 3 000 households. The Committee asked why the associated cost had not been included in the project cost estimate of \$489 million made in 2010.

62. **Assistant Director (Nature Conservation and Infrastructure Planning) of EPD** said at the public hearing and **Director of Environmental Protection** explained in her letter dated 23 December 2015 (*Appendix 16*) that as regards the quantity of surplus electricity for export from the project, the 14 million kWh per year as stated in the paper submitted to EA Panel in November 2010 was the estimate based on the information available at that time before the completion of the

engineering feasibility study in February 2011. A detailed analysis and accurate assessment of the plant's internal power consumption and hence the amount of surplus energy available for export could only be carried out after the completion of the feasibility study in February 2011. It was also necessary to assess the impacts of variations in internal power consumption, which was subject to the Contractor's design, and make provisions in the tender specifications for such variations in defining the specifications and requirements of the power generation and surplus electricity export systems. The detailed design and development works and the corresponding specifications and requirements had been properly incorporated in the 2011 tender documents.

63. In addition, the Committee noted from paragraph 3.27(e) of the Audit Report that ENB/EPD informed EA Panel in March 2014 that a reason for the significant increase in the project cost estimate was that consultants' fees for contract administration and remuneration of resident site staff were later found to be required. However, according to paragraph 3.28(e) of the Audit Report, the related cost estimates should have been included in the original project estimate. The Committee asked why the associated cost had not been included in the project cost estimate of \$489 million made in 2010.

64. **Director of Environmental Protection** explained in her letter dated 23 December 2015 (*Appendix 16*) that upon the completion and approval of the EIA report in February 2010 and in parallel with the project tender preparation works, EPD carried out an in-house assessment of the requirements of the contract administration works and because of the practical need to commence the consultants selection process in parallel with the tendering process such that the works contract and the consultancy could be awarded at the same time, EPD sought the Secretary for the Environment's approval for initiating the consultant selection procedures before funding was secured in accordance with Financial Circular No. 2/2009. Secretary for the Environment's approval was obtained on 22 September 2011 for EPD to initiate the consultant selection process in January 2012.

65. As revealed in paragraph 3.31 of the Audit Report that partly owing to the cancellation of the 2011 tender exercise and re-tendering of the project in 2013, the commissioning of OWTF Phase 1 had been postponed by four years from March 2013 to mid-2017. During the four-year period, a substantial quantity of food waste had been/would be disposed of at landfills instead of being treated by the facility. The Committee asked whether EPD was aware of the consequence of cancelling the

tender exercise in 2011 at that time and measures to be taken by EPD to improve the implementation of works projects in future.

66. **Director of Environmental Protection** explained in her letter dated 23 December 2015 (*Appendix 16*) that:

- before completion of the OWTF network, food waste generated would have to be disposed of at landfills. Before commissioning the OWTF Phase 1 in 2017, the current practice of food waste disposal had to continue;
- the 2011 tender exercise was cancelled in the public interest. Its cancellation had not been caused by any under-estimation of project costs. The 2011 tender exercise could still have been completed successfully if not for the unreasonably high tender prices received. Assuming that if the returned tender in the first tender was not unreasonably high, the Administration would have gone through the internal resource allocation process to seek approval to increase the project estimate, which might take three to six months, and submitted the project to EA Panel and PWSC for approval, which might take another six to nine months. So the delay of the OWTF Phase 1 would only be the extra time required for the second tender exercise, which was necessitated by the unreasonably high tender prices received in the first tender exercise; and
- the above contract provided important cost information and reference data for EPD to come up with more accurate project cost estimate for future OWTFs. The Administration had already made use of this set of updated and relevant project cost data for estimating the project cost of further phases of OWTF.

Availability of cost breakdown information

67. According to paragraph 3.33 of the Audit Report, ENB/EPD informed EA Panel in March 2014 that they did not have the detailed breakdown information on the project cost of \$489 million estimated in 2010. However, according to paragraph 3.35 and Appendix G of the Audit Report, such information was in fact available. The Committee asked why EPD had not provided such information to EA Panel in March 2014.

68. **Assistant Director (Nature Conservation and Infrastructure Planning) of EPD** said at the public hearing and **Director of Environmental Protection** explained in her letter dated 23 December 2015 (*Appendix 16*) that:

- a rough preliminary capital cost estimate based on information collated from overseas anaerobic digestion technical suppliers for the development of large scale biological treatment facilities for a hybrid anaerobic plus composting treatment system was compiled in April 2007 under a consultancy study commissioned in 2006. This rough preliminary capital cost estimate formed the basis for EPD to form the initial capital cost estimate for OWTF Phase 1;
- in addition, the rough preliminary capital cost estimate was based on a design of hybrid system with part of the organic waste to be treated by anaerobic digestion while the remaining would be treated by aerobic composting. In the course of the engineering feasibility study for OWTF Phase 1, it was reviewed and confirmed that full anaerobic digestion for all the food waste received would be more suitable and cost effective for the extremely wet Hong Kong food waste. It was also proposed that the residues of anaerobic digestion (called digestate) should be treated by aerobic composting to render the residue suitable for use as soil conditioner; and
- as the rough preliminary capital cost estimates given in the Technical Feasibility Statement were not directly applicable to OWTF Phase 1, EPD did not consider that the various estimated cost components to be accurate reflection of the likely estimated costs, even though EPD had adopted the broad brush estimated figures with suitable price adjustments and changes in project design up to that time when preparing the crude estimated costs for the purpose of presentation to EA Panel in November 2010. As EPD had not accepted the rough preliminary capital cost estimates as accurate reflection of the eventual project cost, a direct comparison with the detailed cost breakdown provided to LegCo for OWTF Phase 1 would be very misleading.

Service contractor engaged by EPD

69. Regarding the service contractor who was engaged by EPD to liaise with the C&I sector to deliver source-separated food waste to OWTF Phase 1 for treatment upon its commissioning in mid-2017, **Director of Environmental Protection** provided in her letter dated 13 January 2016 (*Appendix 15*) the following details:

Reduction and recycling of food waste

- in November 2014, EPD commenced a 32-month service contract with a lump sum fee of \$1.353 million for a contractor to engage private C&I sector in source separation and delivery of food waste to the OWTF Phase 1; and
- the service contractor was a local environmental charitable organization founded in 1993. Since 2006, it had focused on raising public awareness on food waste in Hong Kong and had established close partnerships with different sectors such as shopping malls, schools and trade associations. From 2010 to 2014, the organization was also involved in service contracts for engaging C&I sector in participating in EPD's Partnership Scheme for delivery of source separated food waste to the Pilot Plant and implementing district based publicity and education activities on food waste reduction, source separation, collection and delivery.

Food-waste recycling in public rental housing estates and private housing estates

70. According to paragraph 3.45 of the Audit Report, more than 60% of respondent residents of public rental housing ("PRH") estates indicated in HD surveys that they would support and participate in food-waste recycling if it was implemented at their estates. However, only 6.2% of the 52 000 invited households had participated in the food-waste-recycling schemes. In view of the low response rate, the Committee asked the measures that HD would take to improve the participation rate if food-waste recycling was fully implemented in future.

71. **Mr Stanley YING Yiu-hong, Director of Housing**, explained at the public hearing and in his letter dated 23 December 2015 (*Appendix 25*) that:

- HD had implemented a number of initiatives on the promotion of reduction and recycling of food waste, in particular on the reduction of food waste at source; and
- it was an indication of HD tenants' awareness that over 60% of respondent tenants would support and participate in food waste recycling if it was implemented at their estates. However, the number of tenants that would participate in food waste separation and collection in a sustained manner depended on various factors. Some of the factors identified in HD's 2014 review of the trial schemes on food-waste recycling were:

- (a) location of food waste collection bins might affect participation. In practice, location of bins would have to be determined taking into account the topography and layout of each estate and striking a balance between convenience and possible nuisance to residents;
- (b) food waste collection time and duration might affect participation. Longer collection hours were more convenient to tenants but might cause more nuisance, while shorter hours reduced nuisance but might be less conducive to participation; and
- (c) incentive schemes were useful and essential to arouse residents' interest especially at the inception of the scheme.

72. The Committee noted from paragraphs 3.54 of the Audit Report that 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. The Committee enquired about the measures that EPD would take to achieve the participation rate of 11% of all households in Hong Kong in separation of food waste by 2022.

73. **Assistant Director (Nature Conservation and Infrastructure Planning) of EPD** said at the public hearing and **Director of Environmental Protection** explained in her letters dated 23 December 2015 and 13 January 2016 (*Appendices 16 and 15* respectively) that:

- the figure of 250 000 households (about 11% of the 2 270 000 households in Hong Kong) as mentioned in the 2014 Food Waste Plan illustrated a possible scenario assuming OWTF Phases 1, 2 and 3 could be built by 2022 as scheduled in the 2014 Food Waste Plan;
- it was estimated on the basis of the spare capacity available from the three organic waste treatment facilities (a total capacity of about 800 tpd) to be built by 2022 after deducting the capacity needed for the C&I food waste, and then dividing it by the assumed average food waste per household per day; and

- it was stated in the 2014 Food Waste Plan that achieving this magnitude of increase of food waste recycling required massive social mobilization, as well as collaboration with food-related business and estate managers. The FW Campaign would work hard to mobilize all stakeholders and the public. It was also anticipated that food separation would increase progressively in scale when MSW charging was in place. EPD would also ensure that OWTF Phase 1 to commence operation by 2017 and endeavour to take forward OWTF Phases 2 and 3 as early as practicable.

74. As revealed in paragraph 3.63 of the Audit Report that up to June 2015, 67% of the nine completed food waste recycling projects in private housing estates had not applied for the extended funding support after expiry of the original two-year period. The Committee asked for the measures that EPD would take to encourage private housing estates to apply for the extending funding support.

75. **Assistant Director (Nature Conservation and Infrastructure Planning) of EPD** said at the public hearing and **Director of Environmental Protection** stated in her letter dated 23 December 2015 (*Appendix 16*) that:

- by June 2015 when the audit review was carried out, there were nine Phase 1 projects completed. Among the nine completed projects, three estates had applied for the extension scheme and were approved. For the six estates "not applied for extended funding support", some of them were considering to apply for the extension scheme;
- as at end November 2015, there were another two Phase 1 projects completed. Amongst those eight completed projects eligible for joining the extension scheme, four more applications were received and being processed; two estates declined to join because the estates were not willing to pay the remaining operation cost; and two estates were still pending their formal reply; and
- EPD would continue to provide technical support (including technical guidelines, information leaflets, hotline for technical enquiries, etc.) to those estates that had completed the initial phase of projects and joined the extended scheme.

D. Way forward

Food waste to be delivered to OWTF Phase 1

76. According to paragraph 3.15(a) of the Audit Report, OWTF Phase 1 would treat 200 tpd of food waste. At the public hearing on 29 December 2015, Director of Food and Environmental Hygiene and Assistant Director (Nature Conservation and Infrastructure Planning) of EPD mentioned that EPD had estimated that 40 tpd of food waste would be collected and delivered from 36 wet markets managed by FEHD to OWTF Phase 1 in mid-2017. In addition, according to paragraph 3.37 of the Audit Report, EPD envisaged in 2010 that 85.6 tpd and 114.4 tpd food waste to be delivered to OWTF Phase 1 would be provided by FEHD wet markets and private sector respectively.

77. Under the above circumstances, the Committee asked for:

- the specific measures to be taken by the Administration in achieving the above target of 40 tpd of food waste to be collected and delivered from the 36 wet markets to OWTF Phase 1 in mid-2017; and
- specific measures to be taken by ENB and EPD to ensure that the remaining 160 tpd of food waste is collected and delivered to OWTF Phase 1 for treatment upon its commissioning in mid-2017, in particular whether the Administration would provide incentives to encourage the delivery of source-separated food waste to OWTF Phase 1 for treatment.

78. **Assistant Director (Nature Conservation and Infrastructure Planning) of EPD** said at the public hearing and **Director of Environmental Protection** explained in her letter dated 13 January 2016 (*Appendix 15*) that:

- EPD was liaising with FEHD to explore the possibility of conducting the pro-active food waste collection at the 36 wet markets identified. In order to increase the amount of food waste to be collected, the proposed proactive mode of operation allowed the stall operators to dispose of source-separated food waste at a designated time, without the need to leave their stalls. EPD would also conduct educational and promotional work in parallel to encourage the stall operators to develop their practices for food waste separation at source;

Reduction and recycling of food waste

- to ensure the pro-active food waste collection could be implemented smoothly at the time of commissioning of OWTF Phase 1, EPD would work in collaboration with FEHD to conduct a six-month trial, starting from early 2016, at two of FEHD markets, i.e. North Kwai Chung Market and Po On Road Market and its associated cooked food centre. The contractor for this trial was required to collect source-separated food waste pro-actively from all stall operators in the markets and cooked food stalls at least twice per day during off peak hours and record the quantity of source-separated food waste collected at each round of collection. The collected source-separated food waste would be delivered to the Pilot Plant for treatment. The data collected in this trial would be useful for examining total collectable food waste from FEHD's markets and its cooked food centres, as well as the required resources and funds for proceeding with this pro-active operation. EPD would discuss with FEHD on the funding and resource arrangements for collection and delivery of source-separated food waste to the OWTF Phase 1;
- EPD did not see the need for arranging at government's cost a collection service to collect and deliver the food waste from the C&I sector to the OWTF Phase 1 as it was their responsibility to deliver the food waste as part of MSW to the current disposal facilities (either to refuse transfer stations or landfills). For those C&I establishments in the OWTF Phase 1 catchment, there was potential for them to save some transportation cost and enhance their environmentally friendly image. EPD's plan was for C&I establishments to be responsible for separating their food waste from their other MSW and deliver the separated food waste to the recycling facilities;
- EPD was liaising closely with various stakeholders and waste collectors to promote source separation and delivery of food waste to OWTF Phase 1 upon its commissioning, with particular focus on different key sectors (such as restaurant trade, developers of shopping malls, hotel trade, food factories, etc.) within the catchment of the OWTF Phase 1. EPD would provide technical support, guidelines and the associated trainings for the trades/sectors. EPD had also engaged a service contractor to facilitate the communication between the C&I sector and the waste collectors to implement food waste reduction, source separation, collection and transportation, etc. EPD was liaising with over 230 establishments to explore logistic arrangement for delivering food waste to OWTF Phase 1;

- in parallel with the implementation of waste charging, the Administration was considering various measures to encourage the C&I sector to source separate and deliver food waste to OWTF Phase 1, including recognition for those who were prepared to deliver food waste to OWTF Phase 1 through publicity events to be attended by stakeholders and senior government officials, such as publicity on EPD's web and facebook and the FW platform, certificates/marks/logos etc. for displaying at their establishments, and issuing certificate showing carbon credit on the amount of food waste delivered to OWTF Phase 1 for treatment; and
- the Administration would continue to consider other appropriate measures taking into account the feedback from the liaison with the trades. The target remained that the food waste amount to be delivered to the OWTF Phase 1 would be able to meet its operational requirements at the early operational stage. The amount would then gradually grow to achieve its maximum design capacity of 200 tpd.

79. Regarding the Committee's question on the progress in identifying suitable sites for constructing additional OWTF to treat the remaining food waste that could be separated and collected for treatment, **Director of Environmental Protection** explained in her letter dated 23 December 2015 (*Appendix 16*) that:

- the 2014 Food Waste Plan envisaged Hong Kong needed to build a network of around five to six OWTFs in the long term with a total recycling capacity of about 1 300 to 1 500 tpd; and
- OWTF Phase 1 was already under construction at Siu Ho Wan (North Lantau). A site in Sha Ling of North District, and Shek Kong of Yuen Long had already been earmarked for OWTF Phases 2 and 3 respectively. The Administration was following up with the relevant departments, in particular the Planning Department, to identify suitable sites for additional OWTFs in other regions.

E. Conclusions and recommendations

<p>Overall comments</p>

80. The Committee:

- notes that the quantity of food waste disposed of at landfills had increased from 1.15 million tonnes in 2005 to 1.33 million tonnes in 2014 (a 16% increase in 10 years) owing to:
 - (a) the piecemeal approach of the Administration in addressing the food-waste problem before 2014;
 - (b) the lack of effective coordination among and support from government departments for the Administration's initiatives in reducing food waste; and
 - (c) the laxity and unprofessional approach of the Environmental Protection Department ("EPD") in implementing the organic waste treatment facility ("OWTF") project and the Food Wise Hong Kong Campaign ("FW Campaign");
- expresses grave concern and finds it unacceptable that in 2013, Hong Kong's per-capita domestic food waste was 0.37 kilogram ("kg") per day⁴, which was 85% higher than the 0.2 kg each of Taipei and Seoul, and emphasizes the importance of fostering an environment in Hong Kong which is conducive to creating a cultural shift on reducing food waste at source;
- expresses great dissatisfaction and disappointment that despite the ambitious vision of the Administration in managing municipal solid waste ("MSW") (including food waste) as enshrined in the "Policy Framework for the Management of Municipal Solid Waste (2005-2014)", the Environment Bureau ("ENB") and EPD had taken piecemeal actions to address the food-waste problem. It was only until 2014 when a policy paper on food waste, i.e. "A Food Waste and Yard Waste Plan for Hong Kong (2014-2022)" ("the 2014 Food Waste Plan"), was published. For the first time, a specific target was set to reduce food-waste disposal at landfills by 40% by 2022, using 2011 as

⁴ In 2014, Hong Kong's per-capita domestic food waste was 0.36 kg per day.

the base year, and specific food-waste-reduction measures with a timeframe was promulgated;

- expresses great dissatisfaction and finds it unacceptable about EPD's laxity and unprofessional approach in the implementation of the major proposed measures⁵ set out in the 2014 Food Waste Plan for achieving the food-waste-reduction target, in particular the implementation of the OWTF project and the FW Campaign. Notwithstanding that the 2014 Food Waste Plan has been launched for only two years, it is doubtful whether EPD could effectively implement these measures to achieve the food-waste-reduction target set out in the 2014 Food Waste Plan;

Reduction in food waste

FW Campaign

- expresses serious concern and finds it unacceptable that EPD had not taken timely and proactive actions to follow up and monitor the implementation of the FW Campaign which was a key food-waste-reduction measure to meet the target of reducing 180 to 360 tonnes per day ("tpd") of food waste by 2017-2018. As a result, the participation rate of the Campaign was unsatisfactory and there were insufficient measurable data to compile useful statistics to evaluate its effectiveness, as evidenced by the following:
 - (a) as of June 2015, there were only 415 Food Wise ("FW") Charter signees and 2 759 Food Wise Hong Kong Ambassadors under the FW Campaign which was launched in May 2013;
 - (b) as of June 2015, eight of the 12 government departments that had been invited by EPD to sign the FW Charter had not 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; and
 - (c) out of the total 1 027 FW Charter signees' returns that should have been called for in the period from 2013 to 2015, EPD had only called for 808 returns (79%) and omitted to call for

⁵ According to paragraph 1.13 of the Audit Report, the proposed measures included implementing the Food Wise Hong Kong Campaign, the MSW charging scheme and the OWTF project, and carrying out food-waste recycling by a private operator at EcoPark. According to the 2014 Food Waste Plan, the Administration's intention was to implement a quantity-based MSW charging scheme by 2016-2017.

219 returns (21%). In addition, only 26 returns contained measurable food-waste-reduction data;

Coordination among government departments

- expresses grave concern and finds it unacceptable that EPD has not spent sufficient efforts to coordinate and solicit support within the Government to lead by example in food-waste reduction as eight of the 12 government departments invited by EPD since 2013 had not signed the FW Charter up to June 2015. In addition, there was little progress in food-waste reduction at schools, Correctional Services Department ("CSD") institutions and Hospital Authority ("HA") hospitals. Schools and CSD institutions had insufficient measurable data to compile useful statistics to evaluate the effectiveness of the food-waste-reduction measures, as evidenced by the following:
 - (a) according to EPD's latest survey conducted in 2010 ("2010 Survey"), only 12% of students taking lunch at school took lunch through the on-site meal portioning arrangement. The survey also found that 46% of students taking lunch at school used disposable containers;
 - (b) from January 2011 to August 2015, other than the 114 schools adopting on-site meal portioning funded by the Environment and Conservation Fund ("ECF"), EPD had not conducted any survey on lunch practices of the other 1 017 (1 131 less 114) whole-day schools;
 - (c) only 20% of schools which responded in the 2010 Survey provided EPD with food-waste quantities for monitoring progress of food-waste reduction; and
 - (d) some CSD institutions and HA hospitals generated relatively high quantities of food waste. According to surveys conducted by CSD and HA respectively in response to the requests from the Audit Commission ("Audit"), the per-person-in-custody food-waste quantities of the 29 CSD institutions in August 2015 ranged from 0.02 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;

Recycling of food waste

OWTF project

- expresses great dissatisfaction and finds it unacceptable that EPD had failed in its duty to implement the large-scale OWTF project (aiming to recycle 800 tpd of food waste by 2022) in a responsible and professional manner, as evidenced by the following:
 - (a) EPD's omissions and significant under-estimation of some cost components in the original project estimate of \$489 million compiled in 2010 had led to insufficient Government earmarked funding at that time to meet the project cost of OWTF Phase 1, for which the approved funding by the Finance Committee ("FC") of the Legislative Council ("LegCo") in October 2014 was as high as \$1,589.2 million;
 - (b) EPD had not included certain significant works requirements in the preliminary capital cost estimate of OWTF Phase 1 in 2010 as those requirements could have been anticipated with careful planning and foresight;
 - (c) in the paper submitted to the Panel on Environmental Affairs ("EA Panel") in November 2010 regarding the adoption of the parallel-tendering approach in OWTF Phase 1⁶, EPD had failed to explain clearly the background of the project (e.g. OWTF would be the first of its kind in Hong Kong) and the assumptions behind the project estimation of \$489 million. EA Panel members were not informed of the implications of adopting the parallel-tendering approach, such as the possibility of a significant deviation of the final project cost from the project estimation. From November 2010 to 2013, EPD had also failed to brief EA Panel of the progress of the development of OWTF Phase 1, such as the cancellation of the tender exercise in 2011 and the re-tendering of the project in 2013. EA Panel was subsequently informed of the progress of the development of OWTF Phase 1 by ENB/EPD in March 2014⁷; and

⁶ Please refer to the paper submitted by EPD to EA Panel in November 2010 (LC Paper No. CB(1)461/10-11(04)).

⁷ Please refer to the paper submitted by ENB/EPD to EA Panel in March 2014 (LC Paper No. CB(1)1074/13-14(01)).

Reduction and recycling of food waste

- (d) partly owing to the cancellation of the tender exercise in 2011 and the re-tendering of the project in 2013, the commissioning of OWTF Phase 1 would be postponed for at least four years from 2013 to 2017, and during the period a substantial quantity of food waste had been/would be disposed of at Hong Kong's precious landfills instead of being treated by the facility;

Food waste to be delivered to OWTF

- emphasizes that ENB/EPD must first develop a comprehensive plan to encourage the public and private sectors to handle their food waste in a proper manner so that adequate amount of food waste would be collected and transported to OWTF for treatment. This would provide the necessary information to facilitate LegCo's consideration of future funding applications for the other phases of OWTF;
- expresses grave concern that EPD envisaged in 2010 that of the food waste to be delivered to OWTF Phase 1, 85.6 tpd would be generated from wet markets managed by the Food and Environmental Hygiene Department ("FEHD") and 114.4 tpd would be provided by the private sector. However, according to EPD's latest estimate in December 2015, only 40 tpd of food waste would be collected and delivered from 36 wet markets managed by FEHD to OWTF Phase 1 in mid-2017;
- has yet to be convinced of the explanation by Director of Environmental Protection that she and EPD are capable of implementing an effective system for separating, collecting and transporting sufficient food waste from the commercial and industrial ("C&I") and domestic sectors to the OWTFs, in particular OWTF Phase 1, for treatment;

Food-waste recycling in public rental housing estates and private housing estates

- expresses serious concern and finds it unacceptable that despite food-waste recycling schemes in both public rental housing ("PRH") estates and private housing estates could provide valuable experience to EPD in implementing full-scale food-waste recycling schemes in future, EPD has not taken proactive actions to follow up and monitor the implementation of these schemes, leading to low participation rates of these schemes as evidenced by the following:

Reduction and recycling of food waste

- (a) from November 2012 to July 2014, only 3 198 (6.2%) of the 52 000 households, residing in 86 blocks of buildings in 14 PRH estates, invited by the Housing Department ("HD") to participate in the food-waste recycling schemes had participated in the schemes. Food-waste recycling schemes in 13 of the 14 PRH estates have ceased since mid-2014; and
 - (b) from September 2012 to June 2015, only 1 981 (4.6%) of 43 091 households residing in 16 private housing estates in receipt of the funding from ECF for implementing food-waste recycling projects had participated in the projects;
- notes that:
- (a) ENB has taken into consideration the growth in the Gross Domestic Products when setting the specific target for reducing food-waste disposal at landfills by 40% by 2022, using 2011 as the base year, in the 2014 Food Waste Plan;
 - (b) EPD will take measures to ensure that OWTF Phase 1 will commence operation by 2017 and would endeavour to take forward OWTF Phases 2 and 3 as early as practicable; and
 - (c) EPD has engaged a service contractor in November 2014 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. EPD will also commission a study on the food-waste collection and delivery arrangements to prepare for the operation of future OWTFs;
- urges Secretary for the Environment to:
- (a) strengthen the coordinating efforts among and supports from government departments for the initiatives on food-waste reduction. Consideration might be given to forming a high-level cross-departmental group to be chaired by the Chief Secretary for Administration to steer such coordination efforts;

Reduction and recycling of food waste

- (b) strengthen efforts to closely monitor the trend of food-waste disposal at landfills with a view to taking early corrective actions to meet the target set in the 2014 Food Waste Plan, i.e. the reduction of food-waste disposal at landfills by 40% by 2022;
 - (c) organize effective large-scale campaigns and step up publicity on food-waste reduction with a view to mobilizing the whole community to reduce food waste and fostering a cultural shift in the long run;
 - (d) closely monitor the implementation of OWTF Phases 1 to 3 to ensure that they would be commissioned on schedule without further delay;
 - (e) map out the implementation of an effective system for separating, collecting and transporting sufficient food waste from the C&I and domestic sectors to OWTFs for treatment;
 - (f) consider introducing incentives or other effective measures to encourage the transportation of food waste to OWTFs; and
 - (g) consider formulating effective measures to coordinate the handling of food waste generated from schools, CSD institutions, HA hospitals and public estates, such as by recycling them locally or transporting them to future OWTFs; and
- urges Director of Environmental Protection to:
- (a) take proactive follow-up actions and effective monitoring measures with a view to involving the whole community to participate in the FW Campaign in order to achieve the target of reducing 180 to 360 tpd of food waste by 2017-2018;
 - (b) strengthen efforts to encourage participation of households residing in PRH and private housing estates in food-waste recycling schemes, and take appropriate and timely follow-up actions to continuously improving the participation levels;
 - (c) develop an effective mechanism to collect data for evaluating and monitoring the effectiveness of the key measures for the reduction and recycling of food waste;

Reduction and recycling of food waste

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- (d) take measures to ensure that detailed design of works projects have been finalized and significant work requirements have been included in the Tender Documents prior to the tendering of works projects in future;
 - (e) take measures to implement an effective system for separating, collecting and transporting sufficient food waste from the C&I and domestic sectors to OWTFs for treatment;
 - (f) strengthen efforts to address any challenges arising from the construction of the other phases of OWTF with a view to expediting the implementation schedule as far as practicable;
 - (g) report to EA Panel on the operation of OWTF Phase 1, in particular, the collection and delivery of food waste to the related OWTF, upon its commissioning, and the progress of development of the other phases of OWTF; and
 - (h) ensure that the information provided to LegCo in the future on other phases of OWTF is accurate, up-to-date and complete, and report to FC and EA Panel in a timely manner of any significant changes to the original proposals.

Specific comments

81. The Committee:

Reduction in food waste

- expresses serious concern that disposal of large quantities of food waste at landfills had dwindled the limited and precious landfill space and generated landfill gas and leachate that exacerbated environmental problems;

FW Campaign

- expresses serious concern and finds it unacceptable that:
 - (a) as of June 2015, about two years after being invited to sign the FW Charter under the FW Campaign which was one of the

Reduction and recycling of food waste

major food-waste-reduction measures under the 2014 Food Waste Plan, eight of 12 government departments had not signed the Charter, at variance with the objective of the FW Campaign on coordinating efforts within the Government and public institutions to lead by example in food-waste reduction;

- (b) from 2013 to 2015, EPD had omitted to call for 219 (21%) of the total 1 027 returns from FW Charter signees, and only 26 returns (2.5% of 1 027 returns) had contained measurable food-waste-reduction data as requested by EPD, thus adversely affecting the evaluation of the effectiveness of the FW Campaign and the extent of achieving the projected reduction of food waste by 5% to 10% by 2017-2018, using 2011 as the base year (as promulgated in the 2014 Food Waste Plan); and
- (c) some government departments (namely the Civil Aid Service, the Fire Services Department, the Government Flying Service and the Immigration Department) which were FW Charter signees had not provided measurable food-waste-reduction data to EPD, at variance with the FW Campaign objective on coordinating efforts within the Government and public institutions to lead by example in food-waste reduction;

CSD

- expresses concern that:
 - (a) as the largest government department involving provision of meals, CSD had not conducted periodic food-waste surveys to monitor the progress of reducing food-waste generation by the 29 CSD institutions; and
 - (b) a survey conducted by CSD in August 2015 in response to Audit's request revealed that the per-person-in-custody food-waste quantities of the 29 CSD institutions ranged from 0.02 kg to 1.61 kg per day, indicating that there was room for food-waste reduction at some CSD institutions;

HA

- expresses concern that as the largest government subsidized organization involving provision of meals, a survey conducted by HA

Reduction and recycling of food waste

in July/August 2015 in response to Audit's request revealed that the per-in-patient food-waste quantities of the 38 HA hospitals ranged from 0.06 kg to 0.58 kg per day, indicating that there was room for food-waste reduction at some HA hospitals;

Food-waste reduction at schools

- expresses grave concern and finds it unacceptable that:
 - (a) from January 2011 to August 2015, other than the 114 schools adopting on-site meal portioning funded by ECF, EPD had not conducted any survey on lunch practices of the other 1 017 (1 131 less 114) whole-day schools;
 - (b) according to the 2010 Survey, some 550 000 whole-day school students taking lunch at school generated 100 tonnes of food waste and discarded 250 000 disposable lunch boxes every day which would be disposed of at landfills, and only 12% of students taking lunch at school took lunch through the on-site meal portioning arrangement (which would help reduce food waste by up to 50%) and 46% of these students used disposable containers (which would be disposed of at landfills after use);
 - (c) only 20% of schools which responded in the 2010 Survey provided EPD with food-waste quantities for monitoring progress of food-waste reduction;
 - (d) notwithstanding that EPD informed EA Panel in June 2010 that it had set targets to reduce the number of disposable lunch boxes by 20 000 per day by 2011-2012 school year and a further 40 000 per day by the 2012-2013 school year, and it would conduct surveys to ascertain the latest situation and review the above targets accordingly, up to August 2015, EPD had not conducted such surveys and review;
 - (e) despite the allocation of \$150 million to support schools to carry out conversion works and install facilities for adopting on-site meal portioning, 27 (84%) of the 32 schools approved with ECF funding for carrying out conversion works for adoption of the on-site meal portioning arrangement in or after July 2011 had not submitted to EPD the food-waste quantities both before and after

Reduction and recycling of food waste

adopting the practice, at variance with a condition of receiving the funding;

- (f) although 294 (26%) of the total 1 131 whole-day schools had signed the Green Lunch Charter from February 2010 to June 2015, ENB and the Education Bureau had not evaluated the signees' performance in practising green lunch;
 - (g) 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 on-site meal portioning facilities had not adopted the on-site meal portioning practice, at variance with the Government's policy that the standard design of new schools would cater for on-site meal portioning; and
 - (h) as of June 2015, eight months after works completion to five years and one month after works completion, the accounts of 103 (98%) of the 105 projects funded by ECF for supporting on-site meal portioning had not been finalized, unnecessarily withholding excess fund which could be used to finance other qualified projects;
- notes that the Administration has agreed with Audit's recommendations in paragraphs 2.37, 2.49 and 2.88 to 2.90 of the Director of Audit's Report ("Audit Report"), and HA has agreed with those in paragraph 2.50 of the Audit Report;

Recycling of food waste

Kowloon Bay Pilot Composting Plant

- expresses grave concern that:
 - (a) notwithstanding that EPD had informed the Advisory Council on the Environment and EA Panel that the Kowloon Bay Pilot Composting Plant ("the Pilot Plant") would treat up to four tpd of food waste, from August 2008 to June 2015, the average quantity of food waste treated by the Plant was only 0.89 tpd, representing only 22% of the four tpd; and

- (b) EPD had not clearly stated in the papers submitted to EA Panel⁸ that the four tpd of food waste handled by the Pilot Plant included bulking agents and other non-food-waste materials;

OWTF Phase 1

- expresses great dissatisfaction and finds it unacceptable that:
 - (a) the cancellation in 2011 of the original tender exercise for installing OWTF Phase 1 (with a capacity of treating 200 tpd of food waste) by March 2013 and the re-tendering of the project would lead to a postponement in commissioning the facility by four years to mid-2017, resulting in a substantial quantity of food waste being disposed of at landfills instead of being treated by the facility during the four-year period;
 - (b) notwithstanding that the original project estimate of \$489 million for OWTF Phase 1 was supported by detailed cost-breakdown information, ENB/EPD informed EA Panel in March 2014 that they did not have such information; and
 - (c) OWTF Phase 1 might not be provided with sufficient food waste for treatment upon commissioning in mid-2017 because, due to resource consideration, FEHD could only provide the facility with 40 tpd of food waste to be sourced from 36 of its wet markets as estimated by FEHD, representing only 47% of the planned 85.6 tpd of food waste from FEHD's wet markets for treatment;

Food-waste recycling in PRH estates and private housing estates

- expresses serious concern and finds it unacceptable that:
 - (a) HD had only invited households residing in 86 (77%) of the 111 blocks of buildings in 14 PRH estates to participate in HD's food-waste recycling schemes implemented from November 2012 to July 2014;
 - (b) although HD's surveys found that about 66% of PRH residents indicated that they would support and participate in food-waste

⁸ Please refer to the papers submitted by EPD to EA Panel in April 2009 (LC Paper No. CB(1)1357/08-09(03)) and in March 2010 (LC Paper No. CB(1)1443/09-10(04)) respectively.

Reduction and recycling of food waste

recycling if it was implemented in their estates, from November 2012 to July 2014, only 6.2% of 52 000 households residing in 86 blocks of buildings in 14 PRH estates had participated in HD's food-waste recycling schemes;

- (c) food-waste recycling schemes in 13 of the 14 PRH estates have ceased since mid-2014, adversely affecting the opportunity of households in those PRH estates to practise food-waste recycling;
 - (d) from September 2012 to June 2015, only 1 981 (4.6%) of 43 091 households residing in 16 private housing estates in receipt of ECF funding for implementing food-waste recycling projects had participated in the projects, much lower than EPD's estimated participation rate of 10% as reported to the ECF Committee;
 - (e) while each food-waste treatment machine funded by ECF and installed in a private housing estate had a capacity to treat 100 kg of food waste a day, from September 2012 to June 2015, on average only 42.7 kg (42.7%) of food waste was collected for treatment from the estate; and
 - (f) as of June 2015, 17 (43%) of the 40 approved food-waste recycling projects at private housing estates had not commenced 13 to 24 months after approval by ECF;
- recommends that:
 - (a) Secretary for the Environment and Director of Environmental Protection should endeavour to provide information requested by LegCo in future; and
 - (b) Director of Housing, Secretary for the Environment and Director of Environmental Protection should explore ways to finance food-waste recycling schemes in PRH estates;
 - notes that the Administration has agreed with Audit's recommendations in paragraphs 3.13, 3.39, 3.50 and 3.67 of the Audit Report;

Way forward

- expresses concern that subject to FC's funding approval for West New Territories Landfill extension works and after completing the approved and proposed extension works, the existing three landfills would reach their capacities from 2023 to 2034;
- expresses grave concern that OWTF Phase 1 scheduled for commissioning in mid-2017 and the planned OWTF Phases 2 and 3 by 2020 and 2022 together would only help reduce disposal of 0.3 million tonnes of food waste at landfills a year, only accounting for 23% of the total food waste disposal in 2013;
- expresses grave concern that EPD had not mapped out an effective system for separating, collecting and transporting food waste from the C&I sector and the domestic sector to the OWTFs for treatment; and
- notes that the Administration has agreed with Audit's recommendations in paragraph 4.11 of the Audit Report.

Follow-up action

82. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by the Committee and Audit.

A. Introduction

The Audit Commission ("Audit") conducted a review of the use and disposal of vacant school premises ("VSP").

Background

2. According to the Education Bureau ("EDB"), the premises of schools that have ceased to operate for various reasons, such as closing, reprovisioning and merger are referred to as VSP. When school sponsoring bodies ("SSBs") cease to use their existing premises located on government land (or in public housing estates under the Hong Kong Housing Authority) to operate their schools, they have to cease to occupy and relinquish possession of the existing premises. As regards schools with existing school premises located on private land (including land grant under private treaty grant ("PTG")), if they are reprovisioned to other premises through School Allocation Exercises¹ ("SAEs"), the SSBs concerned are required to return their existing school premises to the Government as a condition of reprovisioning under EDB's service agreement ("SA") with the SSBs, or they are required to handle the existing premises in accordance with the conditions of the land lease.

3. Subsequent to the cessation of school operation, VSP suitable for educational uses would be reallocated for operating schools or redeployed for other educational uses. EDB aims to put VSP to gainful use in the shortest possible time. For VSP not suitable for educational uses, EDB aims to return them to the relevant departments, mainly, the Lands Department ("LandsD") and the Housing Department ("HD") through the central clearing house mechanism² in an expeditious manner for consideration of alternative uses.

4. Under the policy on consolidation of under-utilized primary schools ("Consolidation Policy") implemented since the 2003-2004 school year, public sector primary schools not meeting the minimum threshold number of primary one students³ will not be allocated primary one class and may subsequently cease operation. The Consolidation Policy has resulted in a number of VSP.

1 EDB conducts SAE from time to time to invite SSBs to apply for new premises or VSP for operating such schools.

2 Under the central clearing house mechanism agreed by the then Steering Committee on Housing Land Supply in October 2011, EDB would pass the list of VSP not suitable for educational uses to the Planning Department which serves as a central clearing house to consider suitable alternative uses of the sites.

3 The minimum threshold number was 23 between 2003-2004 and 2007-2008 school years, 21 for 2008-2009 school year and 16 starting from 2009-2010 school year.

5. Since July 2005, the Infrastructure and Research Support Division ("IRSD") of EDB has been tasked to handle VSP. The records maintained by IRSD between July 2005 and April 2015 comprised a total of 234 VSP, including 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 development.

The Committee's Report

6. The Committee's Report sets out the evidence gathered from witnesses. The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 10);
- Identifying vacant school premises (Part B) (paragraphs 11 to 26);
- Allocating vacant school premises for educational or other uses (Part C) (paragraphs 27 to 48);
- Handling cases of vacant school premises not surrendered (Part D) (paragraphs 49 to 52);
- Property management of vacant school premises (Part E) (paragraphs 53 to 57); and
- Conclusions and recommendations (Part F) (paragraphs 58 to 60).

Public hearings

7. The Committee held two public hearings on 15 December 2015 and 5 January 2016 respectively to receive evidence on the findings and observations of the Director of Audit's Report ("Audit Report").

Declaration of interest

8. Hon Abraham SHEK Lai-him declared that he was the Chairman of Board of Governors of English Schools Foundation and a council member of the St. Stephen's Girls' College.

Opening statement by Secretary for Education

9. **Mr Eddie NG Hak-kim, Secretary for Education**, made an opening statement at the beginning of the Committee's first public hearing held on 15 December 2015, the summary of which is as follows:

- over the years, the Government had enhanced the mechanism for handling VSP on government land or private land granted to SSBs by the Government. Under the prevailing mechanism established by the then Steering Committee on Housing Land Supply in October 2011⁴, when vacant/to-be-vacated school premises were identified, EDB would assess the need to reallocate such premises for school or other educational uses based on their size, location and physical conditions. If EDB considered certain VSP not suitable or did not envisage the need to reallocate the VSP for educational use, EDB would return the VSP to the Planning Department ("PlanD") under the prevailing mechanism for considering whether the sites concerned were suitable for residential development or other uses, with a view to meeting various needs of Hong Kong;

Identifying VSP

- the existing database of VSP kept by EDB mainly contained information on VSP available to IRSD since it was specifically assigned to handle VSP in July 2005, as well as information subsequently provided by the Regional Education Offices ("REOs"). EDB was reviewing the existing database with a view to making it as comprehensive and systematic as possible. An internal manual would be drawn up to set out the requirements and guidelines on the identification, screening, allocation and management of VSP for all relevant EDB sections to follow;
- EDB would review the database of VSP against the particulars of de-registered schools and approached LandsD for checking of land leases for identifying any VSP that had been left out and taking follow-up actions under prevailing mechanism as necessary;

4 The Committee, chaired by Financial Secretary, was set up on October 2010 to coordinate the efforts of government bureaux/departments in making available land for housing development. It has been reorganized 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.

Allocating VSP for educational or other uses

- according to Table 5 of the Audit Report, of the 29 VSP under EDB's purview that were not being used, EDB had already returned four out of eight VSP that had not been earmarked for any use under the central clearing house mechanism with both LandsD and PlanD being notified accordingly. As for the remaining four VSP which were located on private land, EDB would liaise with LandsD on the possible ways of handling the VSP;
- for the 12 VSP not yet put to their allocated use, arrangements were being made for eight of them to be put to use;
- for the nine VSP earmarked for educational uses, EDB would continue to regularly review the need to retain them and the timeline of use, and review the possible short-term use by EDB and relevant government bureaux/departments ("B/Ds") on a regular basis;
- EDB had also expedited SAE. Over the past three years, eight VSP had been reallocated for school use and six of them were already in operation;

Handling of cases of VSP not surrendered

- according to Table 11 of the Audit Report, of the 32 VSP on private land with physical possession of the VSP not yet returned to the Government, nine of them were not put to use as at 30 April 2015. EDB had already returned four of them under the central clearing house mechanism and informed LandsD and PlanD accordingly. EDB would liaise with LandsD on ways of handling the remaining five VSP;
- for VSP that EDB considered necessary to reallocate for educational uses, EDB would discuss with relevant departments such as LandsD and consider recovering possession of the land as far as practicable in accordance with the provisions of the relevant land licences/land leases/SAs. However, the Government must act in accordance with the land licences/land leases/SAs concerned and that recovering possession of land by exercising the power conferred by the land licences/land leases/SAs might not be the only way to make good use of the land; and

Property management of VSP

- EDB was conducting more extensive research to identify other providers of property management services so as to compile a more comprehensive list of property management service providers for managing VSP and would monitor the contractors' performance closely. EDB would also properly evaluate contractors' performance upon completion of contract.

The full text of Secretary for Education's opening statement is in *Appendix 26*.

10. **Ms Bernadette LINN, Director of Lands**, made an opening statement at the beginning of the Committee's first public hearing held on 15 December 2015, the summary of which is as follows:

- for those VSP passed to LandsD under the central clearing house mechanism which were identified to have potential for development by PlanD, LandsD would undertake follow-up actions promptly to facilitate housing development or other specific land use purposes;
- for other VSP under LandsD's purview in which their long-term uses were yet to be determined or implemented, LandsD would try to put them to appropriate temporary uses such as renting them out on short-term tenancy ("STT") on application. These sites were usually less attractive due to their remote location with poor access; and
- as revealed in the Audit Report, there were 73 VSP under LandsD's purview which were not allocated for any use. Of the 73 VSP, 24 VSP were being planned for uses by other B/Ds or interested organizations. 18 VSP were on private land where SSBs had no obligation to deliver possession of the VSP to the Government under the relevant land leases. Actions were being taken for recovering possession of 10 VSP for which their physical possession had not yet been handed back to the Government. LandsD would continue to circulate the list of the remaining VSP to relevant B/Ds such as Social Welfare Department and Home Affairs Department, and District Councils for application on short-term basis for greening or community uses.

B. Identifying vacant school premises

11. The Committee noted from paragraph 2.7 of the Audit Report that IRSD maintained a database on VSP mainly based on information provided by REOs. EDB also maintained a school registration database to record details of registered/de-registered schools which contained information about their cessation of operation. Audit conducted a sample check with information contained in the two databases, and found out that 14 VSP were not included in the list of 234 VSP kept by IRSD. The Committee enquired how IRSD compiled the database of VSP and the reasons for omitting the 14 VSP in the database.

12. **Mrs Marion LAI CHAN Chi-kuen, Permanent Secretary for Education** replied at the public hearings and **Secretary for Education** supplemented in the letter dated 31 December 2015 (*Appendix 27*) that:

- IRSD of EDB had been tasked to handle VSP since July 2005. Before that, there was no designated division within EDB specifically tasked to handle VSP. A database on VSP was set up at that time with information available at that point of time. The database had been updated over the years mainly with input from REOs; and
- more school premises had become vacant after the implementation of the Consolidation Policy in the 2003-2004 school year. Information on VSP before the implementation of the Consolidation Policy was neither complete nor comprehensive. Hence, the current database on VSP could hardly capture all VSP, especially those that were vacated a long time ago. Nevertheless, EDB was reviewing the mechanism for updating the database on VSP with a view to making the VSP database as comprehensive as practicable.

13. The Committee noted that the VSP database was updated based on the information provided by REOs. The Committee enquired:

- why REOs were not aware of the 14 VSP omitted from their respective regions;
- whether REOs had conducted any physical inspection or stock-taking exercise on the number of VSP within their respective regions so as to ensure accuracy of the VSP database;

- what improvement measures had been/would be taken by IRSD to ensure that the database of VSP contained the most comprehensive and up-to-date information; and
- timetable for implementing the improvement measures.

14. **Permanent Secretary for Education** explained at the public hearings and **Secretary for Education** supplemented in the letter dated 31 December 2015 (*Appendix 27*) that:

- to ensure that the VSP database would contain the most up-to-date information on VSP, EDB was going to conduct a stock-taking exercise by comparing the databases on VSP and school registration to identify possible missed cases of VSP, if any. REOs would then conduct site visits to gather further information to ascertain whether the premises were indeed vacated;
- EDB would seek LandsD's advice on the land status of potential cases identified for consideration of necessary follow-up actions. If potential cases were confirmed to have given rise to VSP, EDB would update the database on VSP and follow up the cases based on the established mechanism accordingly;
- EDB would draw up an internal manual to set out the requirements and guidelines on the identification, screening, allocation and management of VSP for all related EDB sections to follow; and
- as there were over 3 000 entries in the registration database, EDB aimed to complete the above enhancement measures to the VSP database in six months' time. In addition, School Registration and Compliance Section of EDB would inform IRSD whenever there was any school closure. IRSD would also follow up with the respective REOs and LandsD for updating the database on VSP and to handle new VSP according to the established mechanism.

15. At the request of the Committee, **Secretary for Education** provided details on the 14 VSP not included in the database of VSP maintained by IRSD in his reply dated 31 December 2015 (*Appendix 27*) that:

- among the 14 cases, 11 of them involved private lots with no cessation of user clause in the land lease. Eight of them were used as private schools before school closure;
- as at 21 December 2015, 10 out of the 14 premises in question were in use and seven of them were for school use;
- for the remaining seven premises not for school use, one was being used for educational and welfare services, two were deployed for community uses under STT and government permit; and
- as regards the four sites that remained vacant, one had been planned for conversion into a post-graduate hostel. LandsD was processing an application regarding the use of the government land portion on one site, and a temporary waiver application on a portion of the private land of another site. The remaining VSP was located on a private land with no cessation of user clause in the relevant land lease and hence the usage of land was unrestricted.

Details on the 14 VSP, including districts where the VSP were located, land status, its current use and whether the relevant land lease contained a cessation of user clause are in *Appendix 28*.

16. In reply to the Committee's enquiry about the plan to enhance the information captured by VSP database for better identification, categorization and disposal of VSP, **Secretary for Education** supplemented in the letter dated 19 January 2016 (*Appendix 29*) that:

- the existing VSP database captured the basic information of VSP, including the former school name, address, number of classrooms and special rooms, year of closure, approximate site area and age of the premises, basic land status category (government or private land), etc. EDB was reviewing the mechanism for data collection and updating with a view to better identifying and categorizing VSP from the perspective of the use and disposal of VSP, including better defining what constituted VSP or VSP requiring handling. The land status and type of school would be main considerations; and
- EDB would add to the VSP database the finance type of the former school and information relevant to the land on which the VSP was located, including details about the type of land (e.g. whether the land

was granted under a PTG), whether the lease contained a land use restriction clause and cessation of user clause, etc., with a view to stepping up the arrangements regarding the identification, assessment and handling of VSP. EDB aimed to complete the abovementioned actions in six months' time.

17. According to paragraph 2.12 of the Audit Report, IRSD would issue a list of VSP to subject EDB divisions half-yearly for them to make proposals on the use of VSP. The Committee enquired what factors EDB divisions would take into account when assessing VSP's suitability for use and what actions had been done to promote the use of VSP which had not been earmarked for use on the circulation list.

18. **Secretary for Education** responded in his reply dated 31 December 2015 (*Appendix 27*) that:

- in assessing a VSP's suitability for school use or other educational use, EDB would consider the size, location and physical conditions of the relevant premises. In addition, EDB would also take into account factors such as the demand for public sector school places in the district, reprovisioning needs of existing schools especially those in the district and the need to provide diversity in the school system, with a view to meeting various educational needs in the territory and supporting relevant policy initiatives;
- IRSD, on a half-yearly basis, circulated a list of new VSP and VSP not yet earmarked for any use to subject EDB divisions for proposals on educational uses and/or short-term uses (where appropriate). IRSD would also circulate a list of those VSP with earmarked uses to subject EDB divisions for their advice on the timeline of the proposed uses. Besides, IRSD also identified suitable VSP for use upon subject EDB division's requests from time to time on a need basis; and
- to further promote the use of VSP, IRSD also compiled and circulated, on a half-yearly basis, a list of VSP suitable for short-term use to relevant B/Ds, including the Home Affairs Bureau, Home Affairs Department, LandsD, PlanD and Social Welfare Department, with a view to identifying short-term use pending the deployment of such premises for the designated use.

19. In reply to the Committee's enquiry on the number of VSP that were successfully allocated for use under the mechanism mentioned in paragraph 18 since 2005, **Secretary for Education** replied in his letter dated 31 December 2015 (*Appendix 27*) that:

- from August 2005 to April 2015, IRSD had conducted 16 exercises to circulate a list of VSP not yet earmarked for any use and a list of VSP with earmarked uses to subject EDB divisions half-yearly. EDB divisions had indicated interests in a total of 106 VSP for school or other educational use during these exercises; and
- among the 106 VSP, 67 VSP had been re-deployed or re-allocated for school or other educational use and nine were being earmarked for school or other educational use. As at 21 December 2015, of remaining 30 VSP, one had been demolished, one had been deployed for other uses, 26 had been returned to the Government for consideration on alternative uses under the central clearing house mechanism. As regards the remaining two VSP, they were located on private land and EDB would consult LandsD about feasible way forward under the relevant land lease conditions.

Central clearing house mechanism

20. Referring to paragraphs 2.3 to 2.5 of the Audit Report, the Committee noted that PlanD would serve as the central clearing house to consider suitable alternative uses of VSP returned by EDB which were no longer required for school or educational uses. However, PlanD would not be tasked to provide oversight on the optimal allocation and disposal of VSP. The Committee enquired how the Administration could ensure a timely and efficient disposal of VSP if no dedicated B/D was to be assigned an oversight responsibility on the allocation of VSP.

21. **Secretary for Development** replied in his letter dated 22 January 2016 (*Appendix 30*) that:

- according to the central clearing house mechanism, PlanD would serve as a central clearing house to consider suitable long-term alternative uses (e.g. Government, Institution or Community, residential and other uses) for vacant or to-be-vacated school sites when EDB notified PlanD and other relevant B/Ds that it no longer required such sites for school use. If a long-term alternative use was identified, PlanD would

proceed with the statutory rezoning procedures, if necessary, to facilitate development of the sites for the relevant uses;

- for VSP on government land under the purview of different B/Ds, the relevant B/Ds were responsible for their disposal according to the long-term alternative uses identified by PlanD. The relevant B/Ds would, where appropriate, pursue and arrange short-term uses to ensure efficient use of land resources;
- for VSP on government land not immediately required for the long-term uses identified and under LandsD's control, LandsD had been endeavouring to put those VSP to gainful use by inviting users through circulation to other B/Ds as well as District Councils, District Offices and District Social Welfare Offices. The lists of sites were available in District Land Offices ("DLOs") for public inspection by any interested party; and
- for VSP on sites governed by private land leases and government land licences, LandsD would seek the return of the sites to the Government where such action was in line with the terms of the leases/licences.

VSP included in the School Improvement Programme

22. The Committee noted from paragraph 2.21 of the Audit Report that, in considering whether to include school premises in the School Improvement Programme ("SIP"), EDB set a general principle that if the school premises could be used for five years or more after the completion of the improvement works, the school would be included in the programme. However, of the 79 VSP which had been included in the SIP, four of which vacated the premises before completion of improvement works and 22 vacated the premises within five years after. Reasons for vacating the school premises included drop in student enrolment (14 cases); reprovisioning of the school (five cases); school merger (two cases) and other reasons such as redevelopment of the housing estate (five cases). In this connection, the Committee enquired:

- why EDB still approved SIP for the 26 schools who vacated before or within five years after the completion of improvement works, and why EDB had not envisaged the closure of the schools and excluded them from SIP; and

- what the criteria adopted by EDB were in considering and approving schools' application for the programme.

23. **Permanent Secretary for Education** responded at the public hearings and **Secretary for Education** supplemented in his letter dated 31 December 2015 (*Appendix 27*) that:

- SIP was implemented between 1994 and 2007 with the aim of progressively upgrading the teaching and learning environment of public sector schools built to old planning standards as far as practicable by providing additional spaces and facilities;
- in considering the eligibility of schools to be included in SIP and the prioritization of SIP into different phases, factors including operational needs, age, size, utilization, physical conditions of the schools, technical feasibility and cost-effectiveness of the project would be taken into consideration;
- as the SIP projects had to go through several years of planning such as technical feasibility study, design, tenders etc. before commencing the construction, changes in time and circumstances could lead to unforeseen development;
- while striving to adhere to the principle of prudent use of public resources, EDB at that time was also mindful that it would be unfair to those schools and students should the Government put a halt to the respective SIP works simply because of a possibility of under-enrolment of students in future, as SIP was aimed at improving the schools' facilities and enhancing learning and teaching environment of the schools. Having considered all relevant factors, EDB at that time was of the view that terminating SIP works would not be in the best interests of the schools and the students concerned; and
- these public sector schools built to old planning standards were generally less competitive in student admission than newly-built schools, and therefore terminating SIP completely would diminish these schools' capacity of student admission.

24. In reply to the Committee's further enquiry on the total costs of improvement works for these 26 schools, **Secretary for Education** responded in the letter dated 31 December 2015 (*Appendix 27*) that total costs of the SIP works for

these 26 schools were approximately \$380 million. He added that although the 26 schools had ceased operation shortly before or after undergoing SIP, most of the school premises with improved facilities had been put into other uses afterwards. As at 21 December 2015, 12 of the 26 VSP were deployed for school use. Two of them were used for setting up time-limited primary schools and two for temporary use by international schools. Four were deployed for post-secondary and other educational uses, one used by a community organization and one as an EDB office. For the remaining four VSP, three had been demolished for redevelopment of housing estate and one had been returned to the Government under the central clearing house mechanism.

Disclosure of information relating to VSP to the Legislative Council

25. According to paragraphs 2.14 to 2.17 of the Audit Report, EDB provided information relating to the use and disposal of VSP to the Legislative Council ("LegCo") from time to time. However, information provided to LegCo by EDB mainly covered primary schools that had ceased operation because of the Consolidation Policy implemented since 2003-2004 school year and did not cover all VSP in the database maintained by IRSD. For instance, in answering a LegCo Member's question in the Examination of Estimates of Expenditure 2015-2016 on the details of existing VSP, EDB disclosed that the number of VSP as at March 2015 was 108 in total, which did not cover all 234 VSP known to EDB. The Committee enquired why EDB did not give a full disclosure of information relating to VSP to LegCo.

26. **Permanent Secretary for Education** responded at the public hearings and **Secretary for Education** supplemented in his letter dated 31 December 2015 (*Appendix 27*) that:

- the data on VSP released to LegCo were first compiled in relation to the questions raised by LegCo concerning the Consolidation Policy in the Examination of Estimates of Expenditure in 2006. Information on VSP before the implementation of the Consolidation Policy was neither complete nor comprehensive. For the sake of consistency and in the light of the information available, EDB had been adopting the Consolidation Policy as the framework for preparing subsequent VSP-related replies and information to LegCo, and had set out the framework adopted clearly in the replies to questions raised by LegCo Members in the Examination of Estimates of Expenditure of the Government; and

- EDB had also provided information on VSP outside the Consolidation Policy upon request every now and then, but with a marker that the data provided might not be comprehensive given the limitation of the VSP database.

C. Allocating vacant school premises for educational or other uses

27. The Committee enquired about EDB's policy on handling, managing and allocating VSP and how the policy on VSP had been implemented regarding the 234 VSP listed on its database.

28. **Permanent Secretary for Education** responded at the public hearings and **Secretary for Education** supplemented in his letter dated 19 January 2016 (*Appendix 29*) that:

- it had all along been EDB's policy objective to put VSP to gainful use. To achieve this policy objective, when there was a vacant or to-be-vacated school premises, EDB would consider the size, location and physical conditions of the relevant premises with a view to assessing VSP's suitability for educational use or whether the premises were needed to be re-allocated for school or other educational use;
- in considering whether to allocate VSP for school or other educational use, EDB would take into account factors like the demand for public sector school places in the district, reprovisioning needs of existing schools especially those in the district, the need for decanting premises for in-situ redevelopment or extension of existing schools, the need to provide diversity in the school system, etc.; and
- once EDB confirmed that the VSP were no longer required by EDB for school or other educational uses, EDB would refer them to PlanD for consideration of suitable alternative uses in accordance with the central clearing house mechanism.

29. The Committee noted that it was EDB's aim to put VSP to gainful use in the shortest possible time. However, according to Table 5 of the Audit Report, there were 29 VSP under EDB's purview which were not being used. Of the 29 VSP, eight VSP had not been earmarked for any use (the schools had ceased operation for 6.4 years on average); nine VSP had been earmarked but not yet allocated to such

uses (the VSP had been earmarked for 3.9 years on average) and 12 VSP had not yet been put to allocated uses (the VSP had been allocated for 2.2 years on average). In this connection, the Committee enquired:

- the reasons for taking so long to put the VSP to gainful use and whether EDB would set a target on the vacancy period of VSP for their optimal utilization in an expeditious manner;
- for the nine VSP earmarked for mainstream/temporary school use for an average of 3.9 years, justifications for earmarking the VSP for such a long period of time without returning them to the Government for consideration of alternative uses and the mechanism in place for monitoring earmarked VSP to ensure that they were put to gainful use as early as practicable; and
- reasons for not putting the 12 VSP into allocated use.

30. **Secretary for Education** gave an account at the public hearings and in his reply dated 31 December 2015 (*Appendix 27*) on the latest development of the 29 VSP as at 21 December 2015:

Eight VSP not earmarked for any use

- four VSP located on private land were returned to the Government under the central clearing house mechanism and PlanD as well as LandsD had been informed accordingly;
- for the remaining four VSP located on private land, EDB would consult LandsD about the feasible way forward under the relevant land leases;

Details of the eight VSP are set out in *Appendix 31*.

12 VSP allocated and not yet put to use

- one VSP had been used by a primary school as extension since September 2015;
- two secondary schools had used a VSP as a shared extension since June 2015;

- one VSP had been used by a primary school for whole-day conversion since September 2015;
- three time-limited primary schools had commenced operation at three VSP since September 2015;
- one VSP had been used as an EDB office since November 2015;
- one VSP was handed over to an international school operator in November 2015 following the execution of a tenancy agreement;
- among the four remaining VSP in question, one was located on private land and the SSB concerned had applied to LandsD to deploy the VSP for operating kindergartens with EDB's policy support;

Efforts made by EDB to put VSP to gainful use and the feasibility of setting a target vacancy period of VSP

- despite uncontrollable or unforeseeable factors which might affect the use of VSP, EDB would closely monitor the follow-up actions to avoid unnecessary delay in putting an allocated VSP to use as far as practicable;
- in assessing the possible educational use of a VSP, there was a need to retain/earmark some VSP on hand to cater for uncertainties about the actual demand arising from parental choices and fluctuations of student population in future, such as using the VSP in the setting up of a time-limited school to meet the transient increase in demand;
- to fully utilize the land resources, EDB would continue the existing practice to internally review possible short-term uses of VSP earmarked by EDB located on government land, and invite relevant B/Ds to consider VSP for short-term use on a regular basis; and
- it was not practicable to impose a fixed target on the vacancy period of a VSP. Setting a fixed target of vacancy period arbitrarily might result in returning VSP to the Government in haste and compromising the flexibility required for meeting changing demand and various needs, such as reprovisioning of existing schools or decanting of schools for in-situ redevelopment.

31. At the request of the Committee, EDB, with the input from LandsD, provided flowcharts on the mechanisms for handling of VSP on government land and private land. The flowcharts are in *Appendices 32, 33 and 34*.

32. Referring to Table 11 of Audit Report regarding the 105 VSP which were not being used, the Committee requested Director of Lands and Secretary for Education to indicate the statuses of these VSP based on the procedures set out in the flowcharts on the mechanisms for handling of VSP on government land and private land (*Appendices 32, 33 and 34*).

33. **Director of Lands** replied in her letter dated 20 January 2016 (*Appendix 35*) that:

- regarding the 77 VSP (49 on government land and 24 on private land under LandsD's purview as at 30 April 2015 plus four VSP under EDB's purview as at 30 April 2015 but had recently been returned by EDB for considering alternative uses under the central clearing house mechanism) not required by EDB for school/other educational uses, their present statuses in the context of the mechanisms for handling of VSP on government land and private land were as follows:

49 VSP on government land - flowchart at *Appendix 32*

- (a) 41 VSP were at the stage of action step 5 of the mechanism shown in the flowchart at *Appendix 32*, i.e. "Land to be disposed of for long-term uses having regard to PlanD's view or put to temporary uses pending long term use or put on the list of vacant government sites available for application for temporary uses if there are no known temporary uses". Among them, two had been approved for alternative long-term uses and were pending site possession by the project proponents. 18 VSP had planned uses/applications being considered and processed by LandsD. The remaining 21 VSP were on the list of vacant government sites available for use on short-term basis;
- (b) eight VSP were at action step 3 of the mechanism shown in the flowchart at *Appendix 32*, i.e. "LandsD to terminate the government land licence/STT". In some of the cases the former licensees had objected to returning the sites to the Government for reasons that the school premises had been constructed at their

costs and they wished to retain the premises for other uses. Pending the Government's identification of specific long-term uses for these sites, LandsD would continue to liaise with the concerned parties to arrange gainful use of the VSP during the interim. At present, the concerned parties of four VSP had put forward proposals to retain the sites for short-term uses. These proposals were being considered in consultation with relevant B/Ds pending the identification of specific long-term uses by the Government;

28 VSP on private land - flowchart at **Appendix 34**

- (c) 21 VSP did not have cessation/diminution of user clause under lease and action step 2 of the mechanism shown in the flowchart at **Appendix 34** had been completed, i.e. "No further action by LandsD, until land is to be resumed for public purpose under statutory power or lease enforcement action is warranted due to lease breach". LandsD would inform EDB of position for record purpose;
- (d) seven VSP had cessation/diminution of user clause under lease (one of which had a cessation/diminution of user clause applying only to one out of eight lots comprising the VSP) that allowed the Government to re-enter the land upon the cessation of school use. Actions had proceeded to action step 3 of the mechanism shown in the flowchart at **Appendix 34**, i.e. "Re-entry action by LandsD". If the grantee put forward a proposal to use the site for education or other purposes, LandsD would process the proposal in consultation with relevant policy bureau, taking into account also long-term use identified by PlanD; and
- (e) the lease in respect of one VSP was modified in 2012 to accommodate another non-profit making use; proposals for other uses had been received for two VSP which were being considered/processed by LandsD in consultation with relevant B/Ds in accordance with the prevailing policy while LandsD continued its actions to recover possession of the other four VSP.

34. **Secretary for Education** replied in his letter dated 19 January 2016 (*Appendix 29*) that:

- there were 29 VSP under EDB's purview which were not being used as at 30 April 2015. The statuses of these 29 VSP as at 21 December 2015 were as follows:
 - (a) for the four VSP located on private land which EDB had confirmed not required for school or educational use, PlanD and LandsD had been informed under the central clearing house mechanism. LandsD would handle the four cases in accordance with the mechanism set out in *Appendix 34*. Three of these four premises did not contain a cessation of user clause in the respective land lease;
 - (b) there were 19 VSP located on government land and retained by EDB for school or other educational use. Among them, seven premises had already been re-deployed and one premises had been handed over to an international school operator allocated with that premises following execution of the tenancy agreement. The remaining 11 VSP had been earmarked or allocated for school use/temporary school use;
 - (c) for the remaining six premises located on private land, one of them had been allocated for educational use and three premises were being used or had been planned for educational use with EDB's policy support. The SA of one premises (i.e. Case 6 of Audit Report) contained a surrender clause and EDB was exploring with relevant departments on how to require the SSB to carve out and surrender the relevant school site in accordance with SA. As for the remaining one premises, EDB would ascertain whether it was required for educational use and would follow-up with LandsD in accordance with the mechanism set out in *Appendices 33 and 34*; and
 - (d) regarding the three premises under HD on government land which had not been put to use, EDB was considering whether to earmark one of them for school use again. The remaining two VSP had been returned under the central clearing house mechanism with PlanD being notified for consideration of alternative use.

35. The Committee enquired whether EDB and LandsD would consider setting an indicative timeframe for each procedure of the mechanism for handling VSP on government land and private land, where appropriate, with a view to expediting the processing of VSP and facilitating the monitoring by LegCo and the public.

36. **Secretary for Education** replied in his letter dated 19 January 2016 (*Appendix 29*) that setting a fixed target of vacancy period or number of VSP arbitrarily might result in returning VSP under the central clearing house mechanism in haste and compromising the flexibility required for meeting changing demand and various needs, including reprovisioning of existing schools for improved teaching environment or decanting use by existing schools to facilitate in-situ redevelopment or extension. With the policy objective of putting VSP to gainful use in mind, EDB strived to facilitate the utilization of VSP in an expeditious manner. Notwithstanding, it was not practicable to impose a fixed target on the time allowed or a fixed timetable for the process.

37. **Director of Lands** replied in her letter dated 20 January 2016 (*Appendix 35*) that LandsD had been taking actions to recover possession of the VSP where appropriate, and put the VSP to gainful use. It might not be practical or appropriate to set a timeframe across-the-board for each procedure in the mechanisms for handling of VSP on government land and private land as the circumstances of each case might vary. For instance, the conditions of the land lease or government land licences varied and so did the responses of the concerned parties, attractiveness of the site for arranging alternative short-term use or local reaction to applications for alternative uses etc. However, LandsD would consider setting a timeline for bringing up the cases for review by senior officers at the district and headquarters levels to strengthen the monitoring and review of progress throughout the work processes. The ultimate objective was to expedite the necessary follow up actions and resolve problems in good time, with a view to putting the VSP to gainful long-term uses or short-term uses in a timely manner.

38. Referring to Case 3 of Audit Report, the Committee noted that School U had been used for temporary school decanting use since December 2008 and was being used as a decanting site of an international school. In this connection, the Committee enquired:

- when the current decanting exercise ended and plan for using the premises afterwards; and

- number of VSP currently used for decanting purpose and plan(s) for using these sites afterwards.

39. **Secretary for Education** replied in his letter dated 19 January 2016 (*Appendix 29*) that:

- regarding Case 3 of the Audit Report, the land grantee had arranged the premises of School U for temporary decanting use by an international school during its redevelopment until July 2016 after obtaining the temporary waiver relating to the land use restriction from LandsD. EDB would liaise with LandsD on how to handle the premises after expiry of the said temporary waiver, pursuant to the mechanisms for handling of VSP on government land and private land; and
- as at 30 April 2015, 77 of 102 premises being used were under EDB's purview. Among these premises, six were now being used as temporary premises for decanting of schools under in-situ redevelopment or extension or phasing out during the transient period. These included four premises on government land and two on private land. The four premises on government land had been earmarked for educational uses. EDB would review the relevant timetable and explore possible uses in a timely manner upon the expiry of the current decanting use in accordance with the established mechanism. Regarding the two premises on private land, EDB would deal with the premises in accordance with the mechanisms for handling of VSP on government land and private land.

40. The Committee enquired:

- how EDB would exercise effective monitoring on the operation of international schools built on government land granted by PTG at nil or nominal premium and/or provided with interest-free capital works assistance loans by the Administration;
- cases under which the SSBs did not comply with conditions imposed by EDB in the past five years; and
- follow-up actions taken by EDB and/or other B/Ds on these non-compliance cases.

41. **Secretary for Education** replied in his letter dated 19 January 2016 (*Appendix 29*) that:

- generally speaking, international schools operated on a self-financing and market-driven basis. The SSBs might decide on matters such as the curriculum offered, student mix as well as admission criteria and arrangements;
- since 2008, any SSB allocated with VSP or greenfield sites for international school development was required to enter into an SA with EDB. SAs stipulated that the international schools operated and managed by such bodies must comply with the detailed school proposals they submitted under SAE, the school development plans, the Education Ordinance (Cap. 279), the Education Regulations (Cap. 279A), specific conditions under SAE, other relevant laws, as well as other requirements and education policies applicable to international schools as promulgated by the Government from time to time;
- EDB would conduct on-site inspection to individual international schools, and examine the enrolment statistics and audited annual accounts submitted by the schools from time to time to check if the operation of these schools complied with the relevant requirements, e.g. the overall enrolment percentage of non-local students. If any SSB breached the provisions in SA or found to have committed any material breach of SA provisions, EDB would take follow-up actions, including terminating or not renewing the SA and resuming possession of the school premises;
- in accordance with prevailing policy, subject to the approval by LegCo Finance Committee, the Government might provide interest-free capital works assistance loans to international schools allocated with greenfield sites for constructing the school premises. It was common for international schools to raise capital through introducing various schemes, such as debentures, nomination rights or levy for the purpose of funding infrastructural projects in meeting the schools' long term development needs and enhancing school facilities. EDB had all along requested SSB to consult parents and relevant stakeholders before introducing any such schemes, and SSBs concerned should clearly explain the reasons for introducing the schemes and the related implementation details. EDB also encouraged schools to set up

different scholarship and tuition fee assistance schemes to support families in need; and

- in the past five years, no international schools had committed material breach of the provisions of SA or tenancy agreement/PTG. Only a few schools had not met specific SA requirements in a timely manner, e.g. offering the specific number of places as set out in the school proposals, ensuring that a specific percentage of students were non-local students, etc. EDB had already requested the schools concerned to provide explanation and commitment to meet the relevant requirements within a specified time, and all such schools had followed up accordingly.

42. According to paragraph 3.14(a) of the Audit Report, there were 73 VSP under LandsD's purview which were not being used for an average of 12.1 years. The Committee enquired:

- reasons for taking so long to put the 73 VSP to use and the follow-up actions to be taken;
- according to paragraph 3.15(b) of the Audit Report, 22 VSP were being planned for use, the timetable for putting them to use; and
- actions LandsD would take on the 18 VSP with physical possession of the VSP not delivered to the Government, such as to re-enter the site, and whether the Government would consider resuming the land in question in accordance with Lands Resumption Ordinance (Cap. 124).

43. **Director of Lands** replied at the public hearings and in her reply dated 30 December 2015 (*Appendix 36*) that:

- it was since the inter-departmental meeting held in November 2005 as mentioned in paragraph 2.3 of the Audit Report that EDB started to pass a list of VSP or school premises to be vacated to LandsD for reference and future actions as appropriate;
- notification by EDB of VSP no longer required for educational uses did not necessarily mean that the Government would have control over the land and premises therein, as some of those VSP were situated on

private land governed by land leases or situated on government land held by external bodies through government land licences or STT;

- where a long-term use had been identified and agreed, LandsD would make arrangements to dispose of the site for the said purpose. Where the long-term use was yet to be implemented/determined, LandsD would try to put VSP to temporary uses such as allocating it for uses by B/Ds, renting it out on STT or including it into the list of vacant government sites available in the relevant districts for application for greening and community uses on short-term basis;

22 VSP with planned uses

- as at December 2015, the planned uses for two of the 22 VSP were not pursued further by the concerned parties. These two VSP would be included in the list of vacant government sites available for application for short-term uses. LandsD would continue processing the remaining 20 proposals with a view to putting them into gainful use as early as possible;
- the processing time required for the 20 VSP would depend on individual circumstances. Assuming positive progress on all fronts, such as sufficient information on the proposal for assessment, policy support for direct grant to the applicant was given by the relevant bureau, government requirements were met by the applicant and no major objections received etc., it was expected that an application for temporary use could be approved in about a year's time after the application was received. It was estimated that the processing of 13 cases would be completed within the 2016-2017 financial year;

18 VSP with physical possession of the VSP not delivered to the Government

- the 18 VSP were wholly or partly on private lots held by private land owners. As the sites were not granted by the Government to the lessees and had been privately owned before the schools existed, it was understandable that there was no cessation/diminution of user clause under the leases. In the circumstances, the Government had no right to demand surrender of the private land, unless there was a breach of lease conditions warranting re-entry by the Government as the landlord or unless the land was resumed for a public purpose under statute; and

- resumption of private land under the Lands Resumption Ordinance was invoked only if the private land was required for identified public purpose(s) and compensation would be payable by the Government in accordance with the law. LandsD had not been advised of a need to invoke resumption powers to resume any of the 18 VSP for a project of public purpose.

44. In reply to the Committee's enquiry on whether LandsD would take actions to promote the use of those 21 VSPs on the list of vacant government sites available for application on short-term uses, such as providing incentives on their use or undertaking minor works to increase their attractiveness, **Director of Lands** replied at the public hearings and in her reply dated 30 December 2015 (*Appendix 36*) that it was not a normal practice for LandsD to undertake improvement works for government sites/premises just for the sake of attracting applications for temporary uses. First, the improvement works would become abortive if the premises were not taken up in good time. Secondly, the improvement works might vary depending on the nature, duration and design requirements to suit the particular temporary use proposed by a project proponent. While the general expectation was for the project proponent to pursue any improvement works required for its proposal, it was for relevant policy bureau supporting a particular use to consider whether, and if so how, further assistance might be given by the Government in implementing the improvement works required.

45. The Committee noted that where the long-term use of a VSP (with physical possession returned to LandsD) was yet to be implemented or determined, LandsD would try to put it to appropriate temporary use such as renting it out on STT on application or allocating it for use by other B/Ds. Audit findings revealed that there was room for improvements in the arrangements (Table 8 of Audit Report refers) on the provision of the VSP list by DLOs available for public inspection. The Committee enquired about the details, including the timeframe, of the improvement measures LandsD would undertake on the provision of information on short-term uses of VSP by DLOs, such as whether the list would be put on LandsD's website to ensure that the public would have ready access to updated and complete information about VSP.

46. **Director of Lands** replied at the public hearings and in her reply dated 20 January 2016 (*Appendix 35*) that internal guidelines were being prepared to standardize and refine the arrangements for making available the list for public inspection at DLOs. The guidelines were targeted to be issued in January 2016.

As regards the suggestion of putting the list of VSP on LandsD's website for public inspection, Director of Lands said that only eligible organizations were allowed to apply VSP on short-term basis for greening and community uses, such as non-profit making organizations. Nevertheless, she would discuss with DLOs regarding the Committee's suggestion.

47. Noting from paragraph 3.17 of the Audit Report that there was one VSP under the HD's purview that had not been allocated for any use with a vacancy period of 4.6 years, the Committee enquired the reasons for not allocating the VSP to use and actions taken by HD in assessing and considering how the VSP could be put into optimal use.

48. **Director of Housing** replied at the public hearing and in his letter dated 31 December 2015 (*Appendix 37*) that:

- while the school site had ceased to operate for 4.6 years, it was only allocated to HD by the central clearing house mechanism for consideration of use for public housing in May 2012;
- HD had conducted various studies in exploring how best to use the VSP, including the feasibility for development of public rental housing ("PRH");
- due to the limited site area of the VSP of about 0.48 hectare with about 500 PRH flat production, the supporting facilities such as educational, recreational, public transport facilities etc. that would have to be catered for, and in view of the complexity involved because of multiple ownership of the site concerned, the option of using the site for development of PRH was not pursued; and
- HD formally informed the relevant departments in October 2015 to consider alternative use of the site. In November 2015, EDB indicated the intention to re-use the school site for educational purpose.

D. Handling cases of vacant school premises not surrendered

49. The Committee noted with concern that as at 30 April 2015, physical possession of 71 VSP had not been delivered to the Government after cessation of school operation. 62 VSP were situated on private land and nine were situated on

government land (Table 11 of the Audit Report refers). Director of Lands mentioned at the public hearing that of the 62 VSP situated on private land, 28 of them the land lease of which did not contain a cessation/diminution of user clause which allowed the Government to re-enter the site if it was no longer used for permitted purpose or if there was a substantial diminution of use. The Committee enquired about details relating to these 28 sites, including forms of land grant, land lease conditions, any other specified purposes of the land and whether the land was granted at nil or nominal premium.

50. **Director of Lands** replied in her letter dated 20 January 2016 (*Appendix 35*) that:

- the leases of three VSP in the New Territories were missing and therefore the history or lease conditions could not be ascertained;
- 21 VSP in the New Territories were held under Block Government Lease or Old Schedule Leases which did not have specific user restrictions;
- one VSP on Hong Kong Island was granted by land exchange at premium for the purposes of church and non-profit making school; and
- three VSP on Hong Kong Island were granted under PTG with the leases being virtually unrestricted. Among these cases, two were granted at nil premium in 1910 and 1920 and one was granted at premium under Conditions of Grant dated 1963.

51. Of the 62 VSP on private land the physical possession of the VSP had not been delivered to the Government, the Committee further enquired about the number of sites granted under PTG to the relevant SSBs and whether the PTG concerned contained a cessation/diminution of user clause that allowed the Government to re-enter the site.

52. **Director of Lands** replied in her letter dated 20 January 2016 that:

- among the 62 VSP, the sites of 30 VSP were granted by the Government by way of PTG. Among them, 27 had a cessation/diminution of user clause under lease that allowed the Government to re-enter the site upon cessation of school uses; and

- for the remaining three PTGs without the clause, two were granted by Government Leases in 1910 and 1920 at nil premium while one with Conditions of Grant dated 1963 was granted at premium.

E. Property management of vacant school premises

53. The Committee enquired about measures taken by EDB, LandsD and HD for the management and maintenance of VSP to prevent illegal break-in or trespassing, total cost incurred on the maintenance and management of VSP not allocated for use in the past 10 years, and details of the management of VSP which was graded as a historic building.

54. **Secretary for Education** responded in his reply letter dated 31 December 2015 (*Appendix 27*) that:

- EDB was responsible for the management of VSP located on sites under the Permanent Government Land Allocation to EDB, including those returned to LandsD under the central clearing house mechanism but that LandsD had requested EDB to continue the management until the next users had been identified and the relevant Permanent Government Land Allocation were terminated;
- management of the VSP concerned mainly included security patrol and inspections, pest control, removal of litter, cleansing and weeding. Such management services had been provided since 2007 on a daily, weekly, or bi-weekly basis, depending on EDB's assessment of the need, value and condition of the VSP concerned, as well as the cost involved;
- on top of routine management services, housekeeping services such as reinstatement of wire fencing had also been carried out for sake of security. Should there be break-in cases, the responsible property management services company would report to the Police for investigation. EDB had also required the responsible property management services company to step up management services of those VSP with reported break-in cases, and requested the Police to step up patrol in the vicinity of such VSP;
- total costs incurred since the provision of management services in 2007 had been about \$5.796 million, with breakdown as follows:

Year	Management cost (\$) (rounded to nearest \$'000)	Number of VSP included in that year
2007	277,000	11
2008	572,000	13
2009	468,000	12
2010	370,000	10
2011	676,000	13
2012	764,000	10
2013	747,000	15
2014	868,000	14
2015	1,054,000	13

- among the VSP managed by EDB, one VSP was classified as Grade 1 Historic Building by the Antiquities Advisory Board in 2010. EDB had provided it with 24-hour property management services based on the advice from the Antiquities and Monuments Office. Routine management services were provided with due care to avoid causing disturbance or damage to the historic fabrics and structures thereon and thereof as per the Antiquities and Monuments Office's advice.

55. In reply to the Committee's enquiry on the substantial increase of management cost of VSP from \$868,000 in 2014 to \$1,054,000 in 2015 while the number of VSP had decreased in the same period, **Secretary for Education** replied in his letter dated 19 January 2016 (*Appendix 29*) that the number of VSP under EDB's management contracts in 2015 had decreased by one and the management cost had increased by \$186,000 when compared to 2014. Apart from the increase in service charges under the new contracts, EDB had been arranging 24-hour property management for a VSP which was classified as a Grade 1 Historic Building since July 2014, i.e. six-month 24-hour management services were provided to this VSP in 2014, and for 2015, EDB needed to provide 24-hour property management services to this VSP for the entire year (12 months). As a result, the related management cost had increased.

56. **Director of Lands** replied in her letter dated 30 December 2015 (*Appendix 36*) that:

- the management and maintenance of VSP under LandsD's control was performed as part of the land control work of individual DLOs of LandsD. The work involved cleaning, erecting government notice

boards and fencing on site, grass-cutting as necessary and providing security service through stationing security guards on site or by patrolling;

- total cost incurred in the past 10 years on maintenance and management of VSP was estimated at about \$7.6 million, averaging at about \$0.76 million per year; and
- measures taken by LandsD for the management and maintenance of VSP to prevent illegal break-in or trespassing included fencing off from public access, erection of warning notice boards, patrol by district land control staff or deployment of security guards through outsourced contractors.

57. **Director of Housing** replied in his letter dated 31 December 2015 (*Appendix 37*) that the VSP under HD's purview had all along been locked up and the Hong Kong Housing Authority's property management agency kept surveillance on it by daily patrol at the surrounding area. Repair and maintenance was arranged on a need basis which was mainly related to safety concern. As the school was generally in an acceptable physical condition, the recurrent maintenance cost for the past few years was solely for the annual inspection fee on the fire service installation, which was around \$4,500 per year.

F. Conclusions and recommendations

Overall comments

58. The Committee:

- expresses grave dismay and finds it unacceptable that:
 - (a) despite the scarcity of land resources, the Education Bureau ("EDB") and the Lands Department ("LandsD") have not effectively managed and allocated the vacant school premises ("VSP") under their respective purviews for meeting different needs of society;
 - (b) EDB failed to compile and maintain a comprehensive and up-to-date database on VSP which is conducive to the effective

management and allocation of VSP. Even though EDB was aware that information contained in the VSP database was incomplete and incomprehensive, they had not taken timely and proactive steps to rectify the situation;

- (c) although a central clearing house mechanism is introduced with the aim of putting VSP to gainful use expeditiously by the Administration as a whole, no dedicated government bureau/department ("B/D") is tasked to provide oversight to ensure that VSP are allocated and disposed of in an efficient and coordinated manner;
- (d) EDB and LandsD have adopted a lax attitude in handling cases of VSP not surrendered by the concerned school sponsoring bodies ("SSBs"). LandsD had not taken action to take back VSP on government land, and EDB had not sought LandsD's advice and assistance to re-enter VSP on private land the land lease of which contained a cessation/diminution of user clause; and
- (e) EDB disclosed incomplete information relating to VSP to the Legislative Council ("LegCo") on many occasions in which EDB only disclosed information relating to schools that had ceased operation due to the policy on consolidation of under-utilized primary schools ("Consolidation Policy")⁵;

Responsibility of EDB for handling of VSP

Policy perspective

- expresses grave dismay and finds it unacceptable that EDB, which is responsible for the identification, allocation and management of VSP, has failed to formulate a comprehensive policy on effective utilization of VSP to put these valuable resources to gainful use expeditiously:
- (a) EDB has not formulated any policy and/or directives on how to put VSP to gainful use for its divisions and/or other stakeholders,

⁵ Under the Consolidation Policy implemented since 2003-2004 school year, public sector primary schools not meeting the minimum threshold number of primary one students will not be allocated primary one class and may subsequently cease operation. The minimum threshold number was 23 between 2003-2004 and 2007-2008 school years, 21 for 2008-2009 school year and 16 starting from 2009-2010 school year.

such as prioritization and categorization of VSP into possible educational uses and promoting such uses proactively; and

- (b) although mechanisms are in place on the handling of VSP, there is no indicative timeframe for the procedures in the mechanisms. Despite EDB's aim to put VSP to gainful use in the shortest possible time, some VSP have been left idle for a long period of time. Moreover, most VSP were handled on a case-by-case basis, resulting in VSP not being put to optimal uses for effective implementation of EDB's educational policies as illustrated by the following two cases:
 - (i) as at 30 April 2015, there were 29 VSP under EDB's purview that were not being used, of which eight VSP had not been earmarked for any use (the schools had ceased operation for 6.4 years on average); nine VSP had been earmarked but not yet allocated to earmarked uses (VSP had been earmarked for 3.9 years on average) and 12 VSP had not yet been put to allocated uses (VSP had been allocated for such uses for 2.2 years on average); and
 - (ii) in Case 3 referred to in the Director of Audit's Report ("Audit Report"), School U refused to surrender its site after school closure in accordance with the cessation of user clause contained in the land lease. However, EDB had not followed up the case with LandsD to take back the site. As a result, its intention to use the site for conversion of a nearby bi-sessional primary school into a whole-day primary school could not be met. The site had been allocated to temporary use since 2008;
- urges EDB to take a more proactive role in allocating the use of VSP and promoting their gainful use by its divisions and/or stakeholders by formulating a policy and/or directives on the allocation and use of VSP. An indicative timeframe should be set for handling each VSP case as far as practicable to avoid VSP being left idle for a long period of time. In addition, EDB should avoid adopting a case-by-case approach and adhere to the mechanisms on the handling of VSP as far as practicable;

Identification of VSP

- expresses grave dismay and finds it unacceptable that there were inadequacies in EDB's compilation and maintenance of the list of VSP. The database on VSP maintained by the Infrastructure and Research Support Division ("IRSD") of EDB is incomplete and incomprehensive. It could not facilitate EDB to take appropriate actions in managing and allocating VSP, as evidenced by the following:
 - (a) a sample check conducted by the Audit Commission ("Audit") revealed that 14 VSP were not identified and recorded in the list of 234 VSP maintained by EDB. Of the 14 schools, one ceased operation in 1946 and 12 ceased operation between 1989 and 2011 (the date of cessation of operation of the remaining school is unknown);
 - (b) the database on VSP is updated based on information of vacant/to-be-vacated school premises provided by Regional Education Offices ("REO"), but REOs have not conducted any stock-taking exercise or physical inspections within their regions to proactively ascertain whether information on VSP maintained in the database included all records of VSP in Hong Kong;
 - (c) the database does not contain sufficient information, such as its current use, forms of land grant of the concerned school site, land lease conditions or any other specified purposes of the site, to facilitate IRSD to exercise effective management and monitoring of the handling of VSP; and
 - (d) EDB has not issued a comprehensive manual to lay down requirements and provided guidelines for related EDB divisions on the identification, screening, allocation and management of VSP;
- notes the explanation of EDB that the database on VSP was compiled by EDB based on the information available before the implementation of the Consolidation Policy, which was incomplete and incomprehensive;
- urges EDB to take improvement measures expeditiously to ensure that the database of VSP would contain complete and up-to-date

information necessary for the identification, screening, allocation and management of VSP by EDB;

- acknowledges that EDB will undertake the following actions for updating the database on VSP:
 - (a) review the mechanism for data collection and updating, including the identification and categorization of VSP for better monitoring and managing the use and disposal of VSP;
 - (b) draw up internal manual to set out the requirements and guidelines on identification, screening, allocation and management of VSP for all related EDB divisions to follow;
 - (c) conduct a stock-taking exercise by comparing the VSP database with the school registration database to identify possible missed case of VSP, and REOs to conduct site visits to ascertain whether school sites are vacant or not; and
 - (d) seek LandsD's advice on the land status of potential cases of VSP that warranted follow-up actions;

Allocation of VSP

- expresses grave dismay and finds it unacceptable that:
 - (a) there were consistent delays in conducting half-yearly exercises by IRSD for circulating the list of unused VSP for other EDB divisions to make proposals on the use of VSP. For those VSP remaining on the circulation list that were left idle for a long time, no further actions had been taken in promoting their uses to EDB divisions or other stakeholders;
 - (b) 29 VSP under EDB's purview were not being used as at 30 April 2015 and had not been returned to the Planning Department ("PlanD") under the central clearing house mechanism for considering alternative uses; and
 - (c) for those VSP that have been put into use, some of them are only partially utilized for the allocated uses, while others are allocated for temporary uses for a long period of time;

- notes the explanation by EDB that:
 - (a) EDB has taken actions to expedite the handling of VSP. Four VSP not earmarked for any use were returned under the central clearing house mechanism to PlanD for considering their alternative uses;
 - (b) there is a need for EDB to earmark VSP for school use to cater for uncertainties about actual demand for school places arising from parental choices and fluctuation of student population; and
 - (c) EDB would internally review possible short-term uses of VSP earmarked and invite relevant B/Ds to consider VSP for short-term use on a regular basis;
- urges EDB to consider ways to promote the use of VSP remaining on the circulation list within EDB. If these VSP were considered not suitable for educational use, they should be returned to PlanD under the central clearing house mechanism for considering their alternative uses expeditiously;

Management of VSP

- expresses serious concern and finds it unacceptable that there were inadequacies in EDB's management of VSP on private land. According to the mechanism on handling VSP on private land, EDB should inform LandsD to re-enter the site if the SSB concerned refused to surrender the school site the land lease of which contains a cessation/diminution of user clause. However, EDB had not taken proactive actions to follow up the cases with LandsD for taking appropriate actions:
 - (a) as at 30 April 2015, there were 32 VSP under EDB's purview the physical possession of which had not been delivered to the Government;
 - (b) of the 32 VSP, 23 were being used and nine were not being used. Even 23 VSP had been put into use, their uses were mainly arranged by the SSBs concerned without going through a proper mechanism of allocation of VSP by EDB. As such, the 23 VSP might not have been put to optimal uses for the effective implementation of EDB's education policies; and

- (c) EDB had all along relied on voluntary surrender of VSP on private land by SSBs. While EDB might negotiate with SSBs on taking back the VSP, they seldom informed LandsD to take escalated actions to re-enter the site according to the cessation/diminution of user clause even if such negotiations turned out to be futile;
- urges EDB to take a more proactive role and follow up with LandsD on appropriate actions to take back VSP not surrendered by the SSBs concerned if the relevant land leases contain a cessation/diminution of user clause;

Responsibility of LandsD for handling of VSP

- expresses serious concern and finds it unacceptable that LandsD had not spent sufficient efforts on its handling of VSP as evidenced by the following:
 - (a) LandsD has not optimally utilized VSP that have been returned by EDB under the central clearing house mechanism and put them to gainful use expeditiously. As at 30 April 2015, there were 73 VSP returned by EDB under LandsD purview which were not put to use. According to EDB's records, 0.6 to 35.6 years (averaging 12.1 years) had elapsed since the cessation of operation of the schools concerned; and
 - (b) there were rooms for improvement in promoting short-term uses of VSP by other B/Ds or outside parties. As revealed by Audit's sample check, there were inconsistencies in the way some of the District Lands Offices ("DLOs") handled public enquiry on the availability of the list of VSP for application on a short-term basis. Some DLOs were unaware of the list, while some lists provided for public inspection contained incomplete information;
- urges LandsD to
 - (a) expedite the processing of VSP with identified uses so as to put the VSP to gainful use as soon as practicable;

- (b) for those VSP the physical possession of which had not been delivered to the Government, take appropriate actions in accordance with the relevant land lease conditions; and
- (c) ensure that interested outside parties could have ready access to updated and complete information about VSP available for short-term uses, such as by uploading the list onto LandsD's website for public inspection;

Responsibility of Housing Department for handling of VSP

- expresses dissatisfaction and disappointment that there was one VSP under the Housing Department's ("HD") purview that had not been allocated for any use as at 30 April 2015. Vacancy period of the site was 4.6 years;
- notes HD's reply that:
 - (a) HD had conducted various studies on how to put the site to gainful use, such as using the site for redevelopment of public housing estates. Taking into account the size of the site and the complexity involved because of multiple ownership of the site concerned, the option was not pursued; and
 - (b) as at November 2015, the site has been returned to PlanD under the central clearing house mechanism to consider its alternative uses. EDB had indicated the intention to re-use the VSP for educational purposes;
- urges HD to review its mechanism in assessing the use of possible sites, including VSP, for housing development with a view to expediting the whole process so that these sites could be released to other departments for more gainful uses should the sites be considered not suitable for housing purpose;

Central clearing house mechanism for handling VSP

- expresses grave concern and finds it unacceptable that even though a central clearing house mechanism was introduced at a meeting held by

the then Steering Committee on Housing Land Supply⁶ in October 2011 under which EDB would pass VSP assessed to be not suitable for educational use to PlanD for considering suitable alternative uses, no dedicated government department was tasked to oversee the reallocation of VSP. It was agreed at the meeting that PlanD would serve as the central clearing house for identifying suitable alternative uses of VSP passed by EDB, but this would not make PlanD as the management agent for the sites before their reallocation. The efficacy of such mechanism for the Government to dispose of VSP amongst B/Ds in an expeditious and coordinated manner is doubtful if there is no department to undertake a coordinating role;

- notes the Development Bureau ("DEVB")'s reply on the central clearing house mechanism on the handling of VSP that:
 - (a) according to the central clearing house mechanism, PlanD serves as a central clearing house to consider suitable long-term alternative uses for vacant or to-be-vacated school sites which are no longer required for school or educational uses. If a long-term alternative use is identified, PlanD would proceed with the statutory rezoning procedures, if necessary, to facilitate development of the sites for the relevant uses; and
 - (b) for VSP on government land under the purview of different B/Ds, the relevant B/Ds would be responsible for their disposal according to the long-term alternative uses identified by PlanD. For VSP on sites governed by private land leases and government land licences, LandsD would seek the return of the sites to the Government where such action is in line with the terms of the leases/licences;
- urges DEVB to strengthen the coordination and promotion on the use of VSP under the central clearing house mechanism amongst B/Ds. Consideration could be given to appointing a government department to perform such a coordinating role so as to ensure that valuable land resources could be put to optimal use in an efficient and timely manner;

⁶ The Committee, chaired by 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 reorganized 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.

VSP included in School Improvement Programme

- expresses serious dismay and finds it unacceptable that EDB failed to ensure that public money was well spent when approving School Improvement Programme ("SIP")⁷ as evidenced by the following:
 - (a) even though it was a general principle that for school premises to be included in SIP, the school premises concerned should be able to be used for five years or more after the completion of improvement works, there were 26 VSP being included in SIP which were vacated before or within five years after completion of improvement works. The improvement works could only benefit the students for a short period before the school premises were vacated;
 - (b) the total costs of the SIP works for these 26 schools were approximately \$380 million; and
 - (c) the major reasons for the 26 schools to vacate their premises after approval of works included a drop in student enrolment (54%), reprovisioning of the school concerned (19%), school merger (8%) and other reasons such as redevelopment of the housing estate (19%). EDB should have envisaged the cessation of operation for some of these 26 schools and taken prudent measures when approving SIP to ensure that public money was well spent in this regard;
- expresses serious dismay and finds it unacceptable that in formulating the Consolidation Policy, EDB has not given sufficient thoughts to lessen its impacts on the schools under SIP, thus ensuring precious resources could be used in more gainful ways;
- notes the explanation of EDB that:
 - (a) EDB, in approving the SIP works for the 26 schools, was mindful at that time that it would be unfair to those schools and students should the Government put to halt the improvement works because of a possibility of under-enrolment in future.

⁷ 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 the provision of additional space and facilities for teaching, out-of-class activities and supporting services for teachers and students.

The relevant SIP works would improve the schools facilities and enhance these schools' capacity of student admission;

- (b) since SIP works were complicated and had to go through several years of planning, changes in time and circumstances could lead to unforeseen development; and
 - (c) most of the school premises with improved facilities have been put to other uses after cessation of operation of the schools concerned;
- urges that EDB, in approving future school improvement/extension works, should critically evaluate all relevant factors, such as decline in student population, in order to ensure that public money would be well-spent to deliver the intended benefits of such works for the students;

Disclosure of information relating to VSP

- expresses grave dismay and finds it unacceptable that EDB had not fully disclosed information relating to the number and usage of VSP to LegCo on many previous occasions. The incomplete disclosure of information and lack of transparency on the usage of VSP would not be conducive to effective monitoring by LegCo and the public of EDB's efforts in putting VSP to gainful use. Two of such occasions are:
- (a) even though it had become a regular question for LegCo Members to enquire about uses of VSP since 2005-2006 when the annual Estimates of Expenditure of the Government were submitted to LegCo Finance Committee for examination, EDB only disclosed information relating to VSP that had ceased operation due to the Consolidation Policy; and
 - (b) in answering a LegCo Member's question in the examination of the Estimates of Expenditure 2015-2016 on the details of existing VSP, EDB disclosed that the number of VSP as at March 2015 was 108 in total, which did not cover all 234 VSP known to EDB. The figure did not include schools that had ceased operation due to reasons other than the Consolidation Policy since 2003-2004 school year;

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- notes the explanation of EDB that data on VSP released to LegCo were first compiled in relation to the question raised concerning the Consolidation Policy in the examination of the Estimates of Expenditure in 2006. As information on VSP before the implementation of the Consolidation Policy was neither complete nor comprehensive, EDB has been adopting the Consolidation Policy as the framework for preparing subsequent VSP-related replies for the sake of consistency; and
 - urges EDB to provide LegCo with complete and updated information of VSP to facilitate LegCo's monitoring role in future.

Specific comments

59. The Committee:

Identifying VSP

- expresses grave dismay and finds it unacceptable that:
 - (a) while EDB has an established mechanism for identifying and handling VSP, a sample check conducted by the Audit revealed 14 VSP not identified and handled in accordance with the mechanism;
 - (b) EDB has not issued a comprehensive manual to lay down requirements and provide guidelines on the identification, screening, allocation and management of VSP;
 - (c) there were delays in conducting half-yearly exercises by EDB to determine uses of VSP;
 - (d) in response to questions about VSP raised by LegCo Members, EDB mainly provided information on primary schools that had ceased operation due to the Consolidation Policy since 2003-2004 school year, instead of consolidating and disclosing information on VSP arising from all kinds of reasons. There was a significant number of VSP of schools that had ceased operation due to reasons other than the Consolidation Policy; and

- (e) while EDB's SIP implemented between 1994 and 2007 intended to benefit the students for at least five years, 26 schools included in the Programme vacated the premises within five years of completion of improvement works, mainly due to drop in student enrolment. The total costs of the SIP works for these 26 schools were approximately \$380 million;
- notes that Secretary for Education has agreed with Audit's recommendations in paragraphs 2.18 and 2.26 of the Audit Report;

Allocating VSP for educational or other uses

- expresses grave dismay and finds it unacceptable that:
 - (a) 29 VSP under EDB's purview were not being used as at 30 April 2015, comprising:
 - eight VSP that had not been earmarked for any use. The eight schools concerned had ceased operation for 1.6 to 10.6 years (averaging 6.4 years);
 - nine 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 nine schools concerned had ceased operation for 1.6 to 15.6 years (averaging 6 years); and
 - 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);
 - (b) 73 VSP considered by EDB as not suitable for educational uses and returned to LandsD were not being used as at 30 April 2015. The 73 schools concerned had ceased operation for 0.6 to 35.6 years (averaging 12.1 years);
 - (c) there were inadequacies in LandsD's arrangements for providing interested parties with ready access to updated and complete information about VSP available for short-term uses;

- (d) one VSP under HD's purview with a vacancy period of 4.6 years was not allocated for any use as at 30 April 2015; and
 - (e) of the 77 VSP under EDB's purview that were being used as at 30 April 2015, four VSP were only partially utilized for the allocated uses (including three VSP each having about half of the floors/blocks not being used) and another 14 VSP had not been earmarked for any specific long-term educational uses and were allocated for temporary uses only (including four VSP that had been allocated for temporary uses to various parties for over six years);
- notes that:
- (a) Secretary for Education has agreed with Audit's recommendations in paragraphs 3.19 and 3.29 of the Audit Report;
 - (b) Director of Lands has agreed with Audit's recommendation in paragraph 3.20 of the Audit Report; and
 - (c) Director of Housing has agreed with Audit's recommendation in paragraph 3.21 of the Audit Report;

Handling cases of VSP not surrendered

- expresses grave dismay and finds it unacceptable that:
- (a) as at 30 April 2015, physical possession of 71 VSP had not been delivered to the Government after cessation of school operation, comprising nine on government land and 62 on private land;
 - (b) as at 30 April 2015, eight of the nine VSP on government land with physical possession not delivered to the Government were not being used. The nine schools concerned had ceased operation for 6.6 to 18.6 years (averaging 11.2 years). LandsD had not taken effective actions to take back the government land;
 - (c) as at 30 April 2015, 33 of the 62 VSP on private land with physical possession not delivered to the Government were not being used. The uses of the remaining 29 VSP were mainly arranged by SSBs but not through EDB's or LandsD's established

mechanism for handling VSP and, therefore, such VSP might not have been put to optimal uses for the effective implementation of EDB's education policies;

- (d) while the leases of at least 34 of the 62 VSP on private land with physical possession not delivered to the Government contain a cessation/diminution of user clause specifying that the Government has the right to re-enter the site, EDB seldom approached LandsD for advice on the follow-up actions such as re-entry to be enforced by LandsD;
- (e) LandsD did not adequately check the lease conditions of the 62 VSP on private land with physical possession not delivered to the Government. The Audit sample check of 10 VSP checked by LandsD to be not containing a cessation/diminution of user clause revealed that two of them actually contain such clause;
- (f) EDB has been keeping records on cases of VSP not surrendered by SSBs but did not produce summarized information for LandsD's action on a regular basis. Furthermore, information on such cases has not been released to enhance transparency and accountability; and
- (g) while 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, the Audit case studies revealed room for improvement in attending to the details in the surrender of the old school premises, as follows:
 - in one case, the surrender clause was omitted from the service agreement;
 - in another case, the surrender clause in the service agreement was nullified by a side agreement between EDB and the SSB; and
 - 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;

- notes that:
 - (a) Secretary for Education and Director of Lands have agreed with Audit's recommendations in paragraph 4.11 of the Audit Report; and
 - (b) Secretary for Education has agreed with Audit's recommendations in paragraph 4.19 of the Audit Report;

Property management of VSP

- expresses serious concern and finds it unacceptable that:
 - (a) in the two quotation exercises conducted by EDB in 2014-2015 for procuring property management services for VSP, contracts were awarded to the only bidder, which was the contractor of the existing contract and was not on EDB's supplier lists;
 - (b) EDB did not require contractors to prepare comprehensive monthly reports on their work done in accordance with the contracts, and did not require EDB staff to keep comprehensive records of inspections of VSP managed by contractors; and
 - (c) EDB did not follow the requirement of the Stores and Procurement Regulations to evaluate the performance of contractors upon completion of the contract; and
- notes that Secretary for Education has agreed with Audit's recommendations in paragraphs 5.12 and 5.19 of the Audit Report.

Follow-up action

60. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by the Committee and Audit.

A. Introduction

The Audit Commission ("Audit") conducted a review on the operation of the Hongkong Post ("HKP").

Background

2. HKP aims to meet Hong Kong's postal needs and fulfill 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 HKP by a resolution under the Trading Funds Ordinance (Cap. 430). As at 31 March 2015, HKP had 7 032 staff, comprising 5 090 civil servants and 1 942 non-civil-service contract ("NCSC") staff. Its postal facilities included two mail processing centres (i.e. Air Mail Centre ("AMC") and Central Mail Centre ("CMC")), 127 post offices, 28 delivery offices, some 1 100 street posting boxes and some 270 departmental vehicles. In 2014-2015, HKP handled 1 212 million mail items comprising 1 038 million (86%) local mail items and 174 million (14%) international mail items.

3. Under the Trading Funds Ordinance, HKP is required to achieve an annual rate of return on fixed assets as determined by the Financial Secretary. 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 from 1995-1996 to 2005-2006, the target rate of return on fixed assets was 10.5% and in the period 2006-2007 to 2011-2012, the rate was 8.4%. Since 2012-2013, the rate has been set at 5.9%.

4. Director of Audit has conducted six reviews on various aspects relating to the operation of HKP since 2001¹. Based on Audit's findings, the Committee conducted public hearings on the Chapters the "Financial performance of the Post Office" and "The Postal Mechanisation System at the Air Mail Centre" in 2002 and 2005 respectively. The findings were reported in the Committee's Report No. 38 of July 2002 and Report No. 44 of July 2005 respectively.

¹ The six relevant chapters which have touched upon the operation of HKP are Chapter 9 of Director of Audit's Report ("Audit Report") No. 36 "Government's efforts to promote e-business in Hong Kong", Chapter 6 of Audit Report No. 38 "Financial performance of the Post Office", Chapter 7 of Audit Report No. 44 "The Postal Mechanisation System at the Air Mail Centre", Chapter 2 of Audit Report No. 49 "Administration of the Hongkong Post Certification Authority", Chapter 8 of Audit Report No. 54 "Provision of postal services" and the present one.

5. The Committee held two public hearings on 30 November and 21 December 2015 to receive evidence on the findings and observations of the Director of Audit's Report ("Audit Report").

The Committee's Report

6. The Committee's Report sets out the evidence gathered from witnesses. The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 7);
- Performance of the Hongkong Post as a trading fund (Part B) (paragraphs 8 to 21);
- Management of mail processing (Part C) (paragraphs 22 to 40);
- Management of post offices (Part D) (paragraphs 41 to 48);
- Management of postal vehicles (Part E) (paragraphs 49 to 54);
- Management of Central Mail Centre and General Post Office Building (Part F) (paragraphs 55 to 57); and
- Conclusions and recommendations (Part G) (paragraphs 58 to 60).

Opening statement by Secretary for Commerce and Economic Development

7. **Mr Gregory SO Kam-leung, Secretary for Commerce and Economic Development**, made an opening statement at the beginning of the Committee's public hearing held on 30 November 2015, the summary of which is as follows:

- the Administration accepted the observations and recommendations made in the Director of Audit's Report and HKP was considering how to implement them in order to improve the operations of the department;
- the Commerce and Economic Development Bureau had regularly reviewed with HKP the latter's business strategy and its operational and financial performance. HKP, operating as a trading fund, had a higher flexibility on its resources allocation and formulate its strategic plans

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according to the market and operational environment. In recent years, HKP had implemented measures to increase its revenue and cut expenses. For 2014-2015, POTF achieved a surplus of \$160 million while meeting the performance pledges and maintaining the postage and other services at an acceptable level;

- when assessing the performance of HKP, the public should pay special attention to some special factors, including the keen competition in the postal and courier markets and the volume of mails was unpredictable. It was not easy for HKP to achieve self-financing and maintaining a satisfactory service to the customers without government subsidy or a great increase in fees; and
- HKP had taken proactive measures to address the observations of Audit in the Audit Report, such as underpayment of postage, overtime work of HKP staff, management of post offices, management of vehicles and the management of CMC and the General Post Office ("GPO") Building.

The full text of the Secretary for Commerce and Economic Development's opening statement is in *Appendix 38*.

B. Performance of the Hongkong Post as a trading fund

8. The Committee noted that since 1995 upon the establishment of POTF, HKP had operated as both a trading fund and a government department. As a government department, it was required to follow the relevant government regulations and procedures, such as the annual adjustment of the salary of civil servants and those relating to procurement. The Committee has also received submissions from two HKP staff unions, namely the Union of Hong Kong Post Office Employees and the Hong Kong Postal Workers Union (*Appendices 39 and 40* respectively), pointing out that HKP was different from four other departments which were also operating as trading funds² as HKP had to compete with other competitors in an open market of postal and courier services. More flexibility and autonomy should be allowed for HKP not following government regulations and procedures regarding accommodation and procurement as well as engaging non-government contractors to provide services.

² The other four departments which are also operating as trading funds are the Companies Registry, the Land Registry, the Office of the Communications Authority and the Electrical and Mechanical Services Department.

9. In this connection, the Committee asked whether the Administration would review the existing policy for HKP to operate as a trading fund. **Secretary for Commerce and Economic Development** explained at the public hearings and supplemented by his letter of 17 December 2015 (*Appendix 41*) that it was the Government's policy that HKP continued to operate as a trading fund. Discussions had been held between the Commerce and Economic Development Bureau and HKP and the focus of these discussions was the measures needed to enable HKP to deliver the best financial and operational performance when operating within the parameters of POTF. **Secretary for Commerce and Economic Development** and **Mr Philip YUNG Wai-hung, Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)**, pointed out at the public hearings, with reference to a note setting out the major differences amongst the different modes of operation of HKP, namely, trading fund, vote-funded department and corporatization/privatization (*Appendix 42*), that the Administration considered that trading fund was a suitable mode of operation for HKP.

10. In response to the Committee's enquiry about the constraints faced by HKP, **Secretary for Commerce and Economic Development** explained at the public hearings and supplemented by his letter of 17 December 2015 (*Appendix 41*) that any institutional and other constraints faced by POTF had always been recognized, and HKP had been making its best endeavour to make the best use of the flexibilities permitted under a trading fund mode of operation. These constraints served as a backdrop to the formulation of annual business plans and medium range corporate plans³ as set out in the strengths, weaknesses, opportunities and threats analysis and the sections on longer term operational sustainability and financial viability of the plans. The relevant extracts of the Annual Business Plan 2014-2015 and the Medium Range Corporate Plan (2014-2015 to 2018-2019) for HKP are in *Appendices 43 and 44*.

11. On the constraints faced by HKP, **Mrs Jessie TING YIP Yin-mei, Postmaster General**, said at the public hearings and supplemented in her letters of 17 December 2015 (*Appendix 45*) and 22 January 2016 (*Appendix 46*) that:

- POTF was unique in that HKP provided postal and related services in competition with numerous service providers in an open market with a low entry threshold. HKP carried the universal service obligation, which required the Department to provide reasonable access to

3 Postmaster General is responsible for preparing and submitting to each Bureau Secretary an Annual Business Plan and a Medium Range Corporate Plan setting out the short and long term strategies for achieving business and policy objectives in the corresponding areas.

affordable postal service for the community at large (including service provision at remote locations and provision of local mail service at uniform postage rate throughout the territory), while other local courier service providers were free to choose the scope and geographical coverage of their service provision. The other four trading funds, in comparison, provided niche services or services for niche markets;

- the public generally still viewed HKP as providing a social service and resisted HKP's measures to improve its finances (e.g. closing loss-making post offices, adjusting postage rates and postal fees to improve costs recovery, etc.). New services introduced by HKP could be quickly emulated at lower costs and lower prices. HKP also faced criticisms that it was competing with the market for profits;
- HKP faced institutional constraints as a government department related to manpower management, financial management and procurement as it had to follow the relevant government regulations, procedures and rules; and
- HKP had over the years made its best endeavour to enhance its operational and financial performance by implementing various measures to manage its costs, generate revenue through business development and maintain its longer-term financial and operational sustainability. In this endeavour, HKP had, as far as practicable, sought to make the best use of the flexibilities permitting under the prevailing institutional and legal framework governing POTF.

12. **Postmaster General** further advised in her letter of 8 January 2016 (*Appendix 47*) that universal service obligation included ordinary local mail and air mail, bulk air mail, local/air/surface parcel, registered mail, etc. For 2014-2015, the revenue from and cost of provision of universal service obligation accounted for 69% and 73% of the total revenue and cost of HKP respectively.

13. In reply to the Committee's enquiry about HKP's endeavour to seek relaxation of some of the institutional limitations on HKP's operations, **Postmaster General** explained in her letter of 22 January 2016 (*Appendix 46*) that in the past five years, HKP had discussed with different bureaux/department in order to seek their agreement to relax some limitations on HKP's operations, including waiving payment of dividend of \$21.5 million for 2003-2004 so that POTF could make continued investment for its future sustainable development; waiving of notional

market rental on premises leased from the Government; HKP to adjust the bulk postage rates for Local Mail and Air Mail on its own; modifying investment guidelines; procuring printing service directly from outside contractors for some printing jobs; and using non-government maintenance service for selected non-mission critical equipment as well as for selected departmental vehicles.

14. **Postmaster General** further explained in the letter of 22 January 2016 about the measures that it would consider to enhance the operating environment of HKP:

- target rate of return - pursue with the Financial Services and the Treasury Bureau whether and how allowance could be made when setting the target rate of return of POTF in view of the inherent constraints of such a status and responsibility on HKP's commercial operation in the review to be conducted on the target rates of return for trading funds in 2016;
- streamlining the statutory provisions on the scope of HKP's service and the postage/postal fee adjustment mechanisms - review on the Post Office Ordinance (Cap. 98) and the Post Office Regulations (Cap. 98A), which were too restrictive in places, and identify room for improvement;
- human resource management - explore with the Civil Service Bureau whether there were appropriate arrangements for engaging contract staff that were more attuned to the manpower requirements of HKP, and whether and how recruitment processes could be streamlined;
- financial management and procurement - explore with relevant bureaux/departments to allow more flexibilities for HKP in these areas; and
- Framework Agreement concluded between the Secretary for Commerce and Economic Development and the Postmaster General - review if there was scope for enhanced flexibility to facilitate POTF's operations in the coming review in 2016.

15. To enhance HKP's financial performance, the Committee enquired about HKP's efforts to explore means to increase its revenue, in particular the revenue generated from e-commerce.

16. **Postmaster General** said at the public hearings and provided in her letter of 9 December 2015 (*Appendix 48*) on HKP's measures to generate revenue and its effort to introduce new services. HKP's service offerings in support of e-commerce included: Smart Post, collection of online purchases at post offices, Speedpost, EMS Cool Box, Bulk Air Mail, iMail, e-Express, e-EMS and conveyance of transit mail from Mainland China via HKP. Details of these services can be found in *Appendix 49*. **Postmaster General** also provided in *Appendix 50* a breakdown of POTF's Operating Revenue for the period from 2010-2011 to 2014-2015, with the revenue generated from e-services increased from 11.8% to 19.5% during the period.

17. The Committee noted from paragraphs 1.13 and 1.14, and Figure 4 of the Audit Report that HKP did not achieve the target rates of return in 14 years of the 20-year period from 1995-1996 to 2014-2015 and enquired:

- how the financial performance of HKP compared with other four trading funds;
- how the net fixed assets of HKP were calculated; and
- the factors considered by the Financial Secretary when determining the target rate of return for HKP.

18. **Secretary for Financial Services and the Treasury** advised in his letter of 9 December 2015 (*Appendix 51*) that all four other trading funds met the target rate of return for the period from 2010-2011 to 2014-2015 with actual rate of return at least twice of the target rate. In comparison, POTF did not achieve the target rate of return in the same period.

19. **Secretary for Financial Services and the Treasury** further advised in the same letter of 9 December 2015 that the value of fixed assets for POTF in calculating the actual rate of return was based on the net book value (cost less accumulated depreciation/amortization) of its fixed assets as shown in the audited financial statements of POTF. The fixed assets of POTF included property, plant and equipment, and computer software licences and system development costs. These fixed assets were valued at their historical costs. In setting target rates of return on fixed assets for trading funds, consultants were engaged through competitive bidding to provide professional advice. The following factors were considered in setting the target rates for the trading funds:

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- the cost of capital of the respective trading fund, which was equal to the weighted average of the cost of debt and the cost of equity of the respective trading fund;
- the cost of debt was calculated on the basis of a risk-free rate, as trading funds remained part of the Government, and adjusted to allow for the potential tax benefit on interest payments. In calculating the cost of debt for trading funds, the risk-free rate was determined with reference to the long-term yield of the Hong Kong Exchange Fund Notes; and
- the cost of equity was calculated by adopting the Capital Asset Pricing Model. It consisted of the risk-free rate and an equity-risk premium multiplied by an equity beta coefficient. In calculating the cost of equity, the same risk-free rate and equity-risk premium were adopted for all trading funds. The equity-risk premium represented the additional return required over and above the risk-free rate to justify investors' investment in equities and the equity beta coefficient reflected the level of risk faced by the relevant industry based on the Hong Kong data to the extent practicable as well as overseas market data if necessary.

The calculation of the target rates of return for HKP since 1995-1996 using the above methodology is shown in **Appendix 52**. In his letter of 4 January 2016 (**Appendix 53**), **Secretary for Financial Services and the Treasury** advised that the Administration had made reference to a number of overseas companies or organizations in the post and delivery industry in the last review of the target rate of return on fixed assets for POTF in 2011 with details in the letter.

20. The Committee noted from a memo from Postmaster General to Secretary for Financial Services and the Treasury dated 20 December 2011 (**Appendix 54**) during the last review of the target rates of return for trading funds in 2011 that HKP had no objection in principle to the consultant's recommendation on continuing the existing methodology of determining the target rate of return for the competitive services of POTF. However, the target rate of return should not be applicable to the universal services obligation. **Postmaster General** said at the public hearings that the Commerce and Economic Development Bureau and HKP had made submissions in 2010 (**Appendix 55**) and 2011 (**Appendix 54**) to the Financial Services and the Treasury Bureau providing justifications for different approaches in respect of universal services obligation and competitive services provided by POTF. However, the consultant was of the view that POTF's case was not strong and

universal services obligation was not a necessity. POTF's problem was more of a price, and a cost and service rationalization problem. As such, a uniform target rate of return at 5.9% had been fixed for all services of POTF since 2012-2013.

21. **Secretary for Commerce and Economic Development** advised in the annex to his letter of 17 December 2015 (*Appendix 42*) that pursuant to the 2015 Budget Speech, HKP was currently reviewing its business operation with the objectives of enabling the department to further support the development of the logistics industry in Hong Kong and expand its service offerings in response to market needs.

C. Management of mail processing

Mail items with insufficient postage

22. The Committee noted from paragraphs 2.3 to 2.14 of the Audit Report that in 2014-2015, HKP handled around three million mail items each day but mail items with insufficient postage were not always detected. According to Audit's tests, of 50 test letters with no stamps or insufficient postage stamps, 43 (86%) of them successfully passed through the detection mechanism and were delivered to the addresses without being surcharged. The Committee asked HKP about the reasons and the improvement measures taken/to be taken by HKP to strengthen its detection of mail items with underpayment of postage.

23. **Postmaster General** said at the public hearings that some mail items with no stamps were detected but they were not followed up properly. In this respect, she said at the public hearings and supplemented through her letter of 5 January 2016 (*Appendix 56*) that:

- about 88% of the mail items processed by HKP daily were accepted over post office counters with postage paid by permit/meter/postage labels. These mail items were checked by HKP staff at the time of mail acceptance and hence the risk of underpayment of postage was very low. The remaining 12%, which were paid by postage stamps and accepted through street posting boxes and posting slots in post offices, carried a higher risk of underpayment. Striking a balance between revenue protection and administrative cost-effectiveness, HKP adopted a risk management approach in the detection of underpaid items, targeting mail items received through street posting boxes and

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posting slots in post offices and, in particular, large letters and packets which were more susceptible to underpayment of postage and the amount of underpaid postage for which tended to be higher;

- HKP had stepped up staff awareness of the need to protect HKP's revenue and the responsibility of all staff handling mail to assist in this task by: (a) improving the operational guidelines to incorporate detailed work steps and delineation of responsibilities for detecting underpaid items; (b) displaying notices carrying the key operational steps and essential points-to-note at relevant work units; and (c) conducting regular briefings for frontline staff to ensure compliance of the stipulated requirements;
- to help ensure effective detection of underpaid items by frontline staff, HKP had increased the minimum quantity, by mail category, to be checked by supervisors at different stages of mail processing taking into account their respective risk levels, and promulgated the requirement for strict compliance by the staff concerned. All underpaid items were recorded and accounted for, including when they were passed from CMC to delivery offices, to facilitate monitoring of follow-up actions. In addition, starting from December 2015, test mail items with insufficient postage were sent regularly as a control measure to ascertain the effectiveness of HKP's detection mechanism;
- to enhance operational efficiency, mail items identified to carry insufficient postage were centrally processed at CMC, which also maintained statistics on such items to facilitate monitoring of any underpayment trends. To further streamline the operational procedures for processing underpaid mail items and surcharge collection, HKP was enhancing the Integrated Postal Services System to automate the calculation of surcharge, the issue of dues labels in replacement of dues stamps and recording of the surcharge amount to be collected by item. This would be rolled out in phases from January 2016 for full implementation by end March 2016 to enhance management control;
- HKP would cease the existing practice of collecting surcharge for underpaid items at the time of mail delivery which was labour-intensive and time-consuming. Instead, recipients would be asked to pay the surcharge and collect the mail item at the designated post office starting from April 2016;

- HKP had stepped up publicity and public education on the responsibility of mailers to pay sufficient postage that underpaid mail items were subject to surcharge and delivery delay; and
- HKP would consider the need for introducing more stringent measures (e.g. increasing the surcharge for underpaid items) to deter underpayment if warranted.

Procurement of airfreight services

24. The Committee noted from paragraphs 2.23 and 2.24 of the Audit Report that in the tendering exercise for the airfreight services for 2014-2015, there were the following inadequacies:

- contrary to the provision in the Government's Stores and Procurement Regulations⁴ and the tender document⁵, HKP did not require the tenderers who failed the financial vetting and whose estimated contract value exceeded \$5 million to submit a contract deposit; and
- when seeking the Central Tender Board⁶'s approval of the award of the contracts, HKP informed the Board that the tenderers had been financially vetted and were considered financially capable of undertaking the contracts; and as they had passed the financial vetting, no contract deposit was required.

In this connection, the Committee enquired why HKP did not follow the Government's Stores and Procurement Regulations and did not 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.

4 According to the Government's Stores and Procurement Regulations, 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.

5 HKP stated in the tender document that 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 if a tenderer failed the financial vetting and the estimated value of the contract was over \$5 million, HKP may require the selected tenderer to submit a deposit equivalent to 0.5% of the estimated contract value. See also Note 12 to the Audit Report.

6 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.

25. **Postmaster General** explained at the public hearings and supplemented in her letter of 5 January 2016 (*Appendix 56*) that:

- in the HKP's 2014-2015 tender exercise for airfreight services, HKP had conducted financial vetting for those tenderers whose estimated contract values exceeded \$5 million. Although some tenderers failed the financial vetting, HKP did not present the full details of the financial vetting results to the Central Tender Board, nor the reasons for regarding the recommended tenderers for contract award as having passed the financial assessment and the reasons for waiving the contract deposit. This was due to oversight in preparing the submission to the Central Tender Board. HKP accepted the recommendation of Director of Audit that it should provide accurate and comprehensive information to the Central Tender Board on the results of HKP's financial vetting and the justifications for waiving the contract deposits; and
- notwithstanding the waiver of the payment of a contract deposit, there was no adverse impact on HKP's interests as explained below:
 - (a) stringent regulatory regime for airline operators operating from Hong Kong - Regulation 6 of the Air Transport (Licensing of Air Services) Regulations (Cap. 448A) required a local airline operator to submit annually the audited financial statements as well as key prescribed information for financial vetting. For non-Hong Kong airline operators, the Civil Aviation Department required the airlines to submit their Air Operator's Certificates. According to the "Air Operator Certification and Surveillance Handbook" published by the International Civil Aviation Organization, before issuing an Air Operator's Certificate, the relevant regulatory authority would consider the financial viability of the operation as well as the economic and financial assessment on the applicant and the regulatory authority would make continuous re-evaluation of the financial viability of the airline operator during the validity period of the Air Operator's Certificates;
 - (b) low financial risk to Government - the airfreight services contracts operated under a Standing Offer Agreement mechanism. Service provision by a successful tenderer under contract was pursuant to a specific request from HKP from time to time during the contract period. Flights were ranked for each

destination having regard to price and other applicable criteria. HKP made no commitment or warranty to any contractor regardless of its ranking as to the exact quantity of mail for its dispatch. When the volume committed by a contractor could not be provided due to whatever reasons, HKP would turn to other contractors on the ranking list immediately;

- (c) market and international practice - it was market practice that airlines might require their customers to pay them a deposit for a guaranteed supply of air conveyance capacity. The contract deposit arrangement as stipulated in HKP's tender document (i.e. the successful tenderers were required to pay a contract deposit to HKP under specified circumstances) was contrary to market practice; and
- (d) interests of Government - under the prevailing arrangement, there was reasonable assurance that HKP's air conveyance requirements would be met due to the relatively large pool of service providers and the established mechanism under contract for HKP to seek compensation from the contractors concerned in the event of defaults in their performance under the contracts with HKP. On the other hand, there was a risk that HKP's interests would be jeopardized (e.g. the contractors might decline the contract offers) if HKP insisted on the payment of a contract deposit by the contractors.

26. **Postmaster General** further advised in her letter that in the 2016-2017 tender exercise for airfreight services, HKP informed the Central Tender Board of the details of the financial vetting results and explained clearly the justifications for HKP's decision of not requiring the successful tenderers to furnish a contract deposit. The Central Tender Board approved the results of the 2016-2017 tender exercise and offered no further comments in this respect.

Overtime work of the Hongkong Post staff

27. According to paragraph 2.34 of the Audit Report, overtime hours worked by HKP staff had long been mainly compensated by overtime allowance ("OTA") rather than compensated by time-off in lieu ("TOIL")⁷. For 2014-2015, the number of

⁷ For example, for the years 2012-2013 to 2014-2015 the ratio of overtime hours compensated by TOIL to that by OTA was about 1:5.

overtime hours was 1 362 941 of which 1 115 234 hours (81.8%) were compensated by OTA (\$179 million). The Committee had examined about the overtime work of HKP staff and HKP's manpower deployment in details.

28. In response to the Committee's enquiry about the justifications for a significant number of overtime work for HKP staff, **Postmaster General** explained about the nature of HKP's work and the overtime issues of HKP staff at the public hearings and in her letters of 9 December 2015 and 8 January 2016 (*Appendices 51 and 47* respectively) as follows:

- as HKP's service provision was demand-led, the actual manpower requirement was subject to variations depending on mail volume, mix of mail types, time of mail acceptance and the class of mail;
- the typical circumstances giving rise to overtime work in the Postal Services Branch, including local mail processing, mail delivery, international mail processing and retail business, are provided in *Appendix 57*;
- to meet the workload and cost-effective utilization of resources, a workforce comprising civil servants and NCSC staff were deployed to cope with regular workload, supplemented by overtime work to cope with fluctuations in workload; and
- with the implementation of measures for post office, local mail processing, international mail processing and mail delivery, such as automation/application of IT solutions, using a Mechanized Letter Sorting System with Chinese character optical recognition capability, process re-engineering and load-leveiling measures, etc., to reduce overtime work as set out in *Appendices 47 and 57*, savings of about \$7 million in overtime work was achieved in 2014-2015. HKP had stepped up effort since 2011-2012 to work down the overall balance of uncompensated TOIL hours in the Department. As a result of the above measures, the total uncompensated TOIL balance was reduced to about 207 200 hours as at 30 November 2015, representing a reduction of 41% compared to the balance at 31 March 2012 or 21% compared to the balance at 31 March 2014. As of the same date, the uncompensated TOIL balance of all staff in HKP was below the service-wide accumulation ceiling of 180 hours and 80% of the HKP staff with an accumulated TOIL balance had a balance less than 50 hours.

29. Noting from paragraphs 2.41 and 2.42 of the Audit Report that the staff of Mail Distribution Division had accumulated a significant number of overtime hours, representing 48% of that of all staff of the HKP⁸, the Committee enquired:

- how a delivery beat⁹ was formed and the workload for a delivery beat was calculated; and
- whether HKP would conduct review on the workload and the standard time for processing and delivering different mail items, and beat revisions.

30. **Postmaster General** advised at the public hearings and supplemented in her letter of 17 December 2015 (*Appendix 45*) and 5 January 2016 (*Appendix 56*) that:

- delivery beats were formed following a beat revision exercise to assess the daily workload of a delivery beat postman, taking account of relevant factors such as the volume, size and weight of the mail items for delivery; the delivery mode; the standard time for the processing and delivery of different mail types; the pledged delivery standard; errand time between delivery points and the local geographical characteristics of individual beats. As the conditioned hours of work of the Postman grade was 48 hours, the daily standard workload of a delivery beat was normally set close to, or equal to, 420 minutes a day;
- while HKP had set standard time for the processing and delivery of different mail types, there were inevitably variations among delivery beats due to diverse local conditions. Moreover, the actual volume and mix of mail for delivery on a day-to-day basis for a delivery beat might not exactly match the standard workload set for the beat concerned. Thus, supervisors in delivery offices would exercise judgment and draw on their local knowledge in assessing the daily workload of individual delivery beats and, where justified, allocate additional resources so as to ensure the timely completion of the delivery workload on hand. A copy of the guidelines on delivery workload assessment promulgated to supervisors and managers in the Mail Distribution Division is in *Appendix 58*. Specifically, Postal Inspectors were required to record on a daily basis the reasons for

8 As at 31 March 2015, the Mail Distribution Division had 2 670 civil servants including 2 254 Postman grade staff.

9 As at 31 March 2015, there were 1 756 delivery beats under the Mail Distribution Division which was mainly responsible for the delivery of mail items to different points in Hong Kong.

deviations from the standard time in assessing the workload for each delivery beat. Superintendents of Post/Senior Postal Inspectors as well as managers were required to examine these records and follow up on deviations of 5% or more; and

- to supplement the daily workload assessment for delivery postmen, Postal Inspectors were required to monitor the time of return of delivery postmen to the delivery office upon completion of their delivery duties, and conduct beat patrol at selected delivery points as well as the last stop of the delivery routes to review whether the resource allocation was in line with the workload. If notable deviations were observed, they would be reported to their Superintendents of Posts/Senior Postal Inspectors for necessary follow-up, e.g. by way of minor patching to the delivery beats concerned. Since November 2015, the Beat Survey Team ("BST") under Productivity Services Section had increased their monthly checks and enhanced their communication with delivery offices on notable disparity between the time allocated to a delivery postman and the actual time required. Reports on the monthly check were required to be submitted to Postal Services Branch Headquarters in a timely manner.

31. On the formulation of the workload for each delivery beat, **Postmaster General** explained in her letter of 5 January 2016 (*Appendix 56*) that:

- in 1999, HKP embarked on an exercise to formulate a new methodology for measuring the workload of individual delivery beats by reference to a set of standard time for mail preparation and delivery for different types of delivery beats. The new methodology was implemented from 2001. In 2001 to 2005, the Vertical Postmen Preparation Fitting was introduced to all delivery offices in phases. Due to the changes in postal operations and tools, HKP conducted another review in 2006 to 2008 on the standard time for workload assessment for delivery postmen. The updated standard time was adopted in 2008; and
- the determination of the standard time for the processing and delivery of different mail types in the two afore-mentioned exercises was carried out in-house. To enhance objectivity and reliability in assessing the work performance of delivery postmen for the purpose of defining such standard time, HKP sought professional advice from the

Department of Industrial and Systems Engineering of The Hong Kong Polytechnic University on proven industrial engineering methodologies relevant to the exercise and engaged its assistance in organizing training for HKP staff who were involved in tasks related to workload assessment, e.g. beat surveys, productivity and performance measurement, etc. The content of the first training course provided by The Hong Kong Polytechnic University to HKP staff in 1999 is in *Appendix 59*.

32. On the reviews on the workload assessment for delivery postmen, standard time for mail preparation and delivery for different types of delivery beats and conducting beat revisions, **Postmaster General** said at the public hearings and in her letter of 5 January 2016 (*Appendix 56*) that:

- to provide an updated basis for workload assessment¹⁰ for delivery postmen, HKP would embark on a comprehensive review in 2016. The review would examine if any adjustments were required for (a) the designation of eight categories of delivery beats¹¹; and (b) the standard time for the processing and delivery of different types of mail items for different categories of delivery beats taking into account relevant factors such as changes to postal operations since the last review conducted in 2006 to 2008, changes in the mail mix in recent years, changes in the age profile of delivery postmen, the learning effect as a result of accumulation of experience with a delivery beat, etc.;
- in the upcoming review, HKP would select around 150 delivery beats that were representative of different delivery modes for a close study of their actual operations, covering the three key components underpinning the assessment of the standard workload of a delivery beat, namely, indoor preparation processes, journey time and outdoor delivery time;
- HKP tentatively targeted to complete the review in the first half of 2017. The new standard time for the processing and delivery of different mail types for application to different categories of delivery

10 Under the current methodology for workload assessment for delivery postmen, standard time has been defined for the processing of different types of mail (including "letters/flats", "packets", "registered mails" and "Speedpost") under eight categories of delivery beats.

11 These eight categories of delivery beats are: residential nest letter boxes, residential door-to-door delivery, rural, commercial door-to-door delivery, residential nest letter boxes/irregular door-to-door delivery, commercial door-to-door delivery/residential nest letter boxes, residential/commercial 50% mix and Islands.

beats would thereafter be applied for assessing the standard workload of each delivery beat in beat revision exercises; and

- according to the prevailing departmental guideline, a beat revision exercise should be carried out for each delivery office every three years. However, due to operational needs, BST was deployed to conduct unscheduled workload assessment for the three Speedpost Centres and the three Speedpost hubs in 2012-2014 due to the envisaged efficiency gain. Moreover, BST carried three vacancies out of a total establishment of ten Postal Inspectors during the period from March 2013 to June 2014. As a result, there had been a slippage in the conduct of the beat revision exercises for the delivery offices. To catch up with the prescribed review schedule, HKP was taking steps to augment BST by recruiting four to five more staff (in addition to the existing 12 staff) and aimed to complete all outstanding beat revision exercises by end 2017.

33. The Committee was concerned whether overtime would be granted to delivery postmen only from the computation of the standard working time and enquired about the calculation of actual overtime and the supervisory and monitoring mechanism for the overtime work of delivery postmen.

34. **Postmaster General** explained at the public hearings that HKP would only grant overtime work if the work had been actually carried out by the delivery postmen, regardless of the previous computation of the daily workload assessment. She further elaborated in her letter of 5 January 2016 (*Appendix 56*) that:

- Postal Inspectors in delivery offices were required to monitor the time of return of delivery postmen to their respective delivery offices upon completion of their delivery duties for an assessment on whether the resource allocation was aligned with the actual workload. If a postman returned to the delivery office earlier than the time indicated under the daily workload assessment, the overtime hours already granted might be forfeited subject to a review by the delivery office concerned. Conversely, if a delivery postman took longer than the required duration assessed by his Postal Inspector to complete his daily delivery duties, he would not be granted overtime hours automatically;
- Superintendents of Posts of delivery offices carried out checks on the pouch-out time (i.e. the time at which a delivery postman departed

from the delivery office to commence the outdoor delivery duty) and the pouch-in time (i.e. the time at which a delivery postman returned to the delivery office after completing the outdoor delivery duty) to ensure that no excessive overtime was granted to individual beats. If a delivery postman persistently returned early, the respective Superintendents of Posts would review the standard workload of the delivery postman and seek endorsement from the Division Head for minor patching of the beat if the situation warranted;

- Postal Inspectors were required to conduct regular beat patrols at selected delivery points and the last stop of each permanent and temporary delivery beat at specified intervals without prior announcement to the delivery postman concerned. Superior spot checks of delivery beats were also conducted by the supervisors of the Postal Inspectors and the area Managers. If notable deviations and/or irregularities were observed during these inspections, they would be brought to the attention of the Mail Delivery Division Headquarters for necessary follow-up; and
- BST conducted independent supervisory checks and reported any irregularities observed to the Mail Delivery Division Headquarters and the Postal Services Branch Headquarters for follow-up actions. The frequency of these supervisory checks was increased from four times a month to six times a month from November 2015 and would be further increased to eight times a month in April 2016.

35. On how the manpower shortage problem of HKP could be addressed, **Postmaster General** provided in her letter of 17 December 2015 details of the staff situation of HKP, including the number of civil servants, vacancies and the vacancy rate in the Mail Distribution Division and AMC from 2010-2011 to 2015-2016 (**Appendix 60**) as well as similar figures for the NCSC staff for the same period (**Appendix 61**). The wastage rates of the Postal Officer grade and the Postman grade from 2010-2011 to 2014-2015 are provided in **Appendix 62**. She explained in her letter of 17 December 2015 (**Appendix 45**) about the difficulties in recruitment of civil servant staff and the measures to address the difficulties as follows:

- as HKP was required to follow procedures promulgated by the Civil Service Bureau, it had to process all applications received;
- once HKP embarked on a fresh round of recruitment, the waiting list from the last round of recruitment exercise would cease to be valid.

As a consequence, HKP had to carry the vacancies arising during the recruitment process until the new intake reports for duty; and

- to address the above difficulties, HKP had sought to compress the recruitment process. The wastage of the Postal Officer grade and the Postman grade was relatively stable, and HKP did not face any retention difficulty for these two grades.

36. On the work of NCSC staff in HKP, **Postmaster General** advised in her letter of 9 December 2015 (*Appendix 48*) that NCSC staff had been deployed to assist delivery postmen in their daily work, such as conveying sorted mail in the delivery office to the workstations of individual postmen, mail sequencing work, loading mail pouches onto feeding vehicles and clearing and returning all sorting tools/equipment for use by postmen. As HKP encountered difficulty in recruitment and staff retention for NCSC positions, **Postmaster General** elaborated in her letter of 17 December 2015 (*Appendix 45*) measures which are summarized as follows:

- explaining details of job clearly in the vacancy advertisements to attract right candidates and reduce wastage;
- conducting regular pay level reviews for NCSC staff with reference to market pay levels to ensure the remuneration package was competitive;
- providing on-the-job training for NCSC staff; and
- offering an attractive career path for NCSC staff by encouraging them to apply for civil service vacancies in HKP with recognition to relevant working experience.

37. The Committee noted from paragraphs 2.59 to 2.60 of the Audit Report that some staff of AMC had worked significant amount of overtime and HKP had encountered recruitment difficulty because of intense competition for manpower at Chek Lap Kok. The Committee enquired about HKP's measures to address the manpower shortage at AMC and the overtime work issue.

38. **Postmaster General** advised in her letter of 5 January 2016 (*Appendix 56*) that:

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- AMC was responsible for processing outbound and inbound mail to and from international destinations year-round. As the arrivals and departures of the flights engaged for conveying HKP's international mail were spread throughout the day and in order to meet HKP's performance pledges for processing international mail, AMC operated round-the-clock;
- overtime work was inevitable due to the unpredictable nature of postal traffic. Other circumstances which further added to the need for overtime work at AMC included vacancies, for both civil service posts and NCSC positions and temporary staff absence due to various reasons; and
- the following measures had been implemented to ease the situation:
 - (a) re-engineering the work processes at AMC to reduce manual effort, e.g. scaling down the operations on Sundays and public holidays;
 - (b) transferring some of the operations to alternative locations in town where manpower shortage was less acute than at Chek Lap Kok;
 - (c) rescheduling the duty hours of the staff at AMC so that the operating hours of AMC could be covered by the regular workforce as far as operationally practicable. Some NCSC staff from other operational units of the International Mail Division had also been redeployed to AMC to reinforce the workforce there. In addition, starting from August 2015, HKP had deployed leave reserve staff to AMC to cover temporary absence arising from attendance of staff training;
 - (d) enhancing on-the-job training to equip the AMC staff with the necessary skills and knowledge for enhanced operational performance; and
 - (e) stepping up effort to fill NCSC vacancies in AMC, e.g. by distributing recruitment advertisements in Tung Chung by means of household circulars and engaging the assistance of the Labour Department in arranging recruitment campaigns in Tung Chung in 2015. HKP had also increased the salary for staff on overnight shift from 1 November 2015.

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As a result of the above measures, during the period from April to November 2015, the total overtime hours incurred by the AMC staff had reduced by 20% and the number of staff working overtime in excess of the monthly departmental ceiling of 60 hours had reduced by 71% compared with the same period in 2014. HKP would continue to monitor the overtime work incurred for operations at AMC with the objective of further reducing overtime work there where operationally practicable. In this connection, HKP would further examine the feasibility of adjusting the duty hours of the AMC staff as well as the manpower deployment (including the mix of civil service posts and NCSC positions) at AMC. Where operationally justified, HKP would consider creating additional posts.

39. In reply to the suggestion of providing transportation service to the workplace for staff working at AMC, **Postmaster General** pointed out in her letter of 5 January 2016 (*Appendix 56*) that AMC was easily accessible by public transport. The duty hours of the staff working at AMC were scheduled to cope with the round-the-clock operation of AMC and they spread throughout the day. Moreover, the arrival and departure patterns of the AMC staff were uneven in reflection of the manpower demands at different hours during the day. In view of the foregoing, HKP considered that the provision of departmental transportation service to the workplace for staff working at AMC was not a cost-effective arrangement and did not intend to pursue the suggestion.

40. In reply to the Committee's enquiry about the upgrading of portable digital assistant currently used by the delivery postmen, **Postmaster General** advised in her letter of 5 January 2016 (*Appendix 56*) that all delivery postmen in Mail Delivery Division were equipped with portable digital assistant for instant recording of the delivery status of mail items supported by mail tracking. The recorded delivery status was uploaded to HKP's Track and Trace System for customers to check updated mail delivery information conveniently. These portable digital assistants were due for replacement when they reached the end of their serviceable life in 2017. In preparation, HKP would embark on a review of the functional requirements in early 2016. Under this review, HKP would examine the merits and feasibility of incorporating additional functions into the device so as to enhance performance management and service quality. These additional functions included global positioning and/or tour monitoring system (for enhancing control of outdoor duties) and photo-taking (for reporting irregularities such as damaged/insecure letterboxes of households). Allowing time for the above-mentioned review, procurement as well as system design and development, HKP aimed to implement the replacement programme in phases from the third quarter of 2017 to the first quarter of 2018.

D. Management of post offices

41. According to paragraph 3.3 of the Audit Report, in 2014-2015, out of the 127 post offices (including three mobile post offices), 103 recorded loss, ranging from \$350,000 to \$5.2 million. In reply to the Committee's enquiry about the information on the 24 post offices which achieved an operating profit in 2014-2015, **Postmaster General** provided in her letter of 5 January 2016 (**Appendix 56**) a breakdown on the profit and the scale of these 24 post offices. As regards the services provided at these post offices, they were broadly the same as other post offices. Half of them accepted bulk postings and thus attracted more revenue. Some of them provided additional services such as post office box rental, trade declaration service, etc. These 24 post offices were generally located in commercial or industrial areas with a higher transaction volume. 14 of them were on premises vested in POTF (i.e. without the need to pay rent) and thus had a lower operating cost base.

42. Noting from paragraph 3.7 and Table 11 of the Audit Report that 28 post offices had productivity indices¹² below 70%, the Committee enquired about the reasons for the relatively low productivity indices for these post offices and measures taken by HKP to enhance its productivity and operational efficiency.

43. **Postmaster General** advised in her letter of 8 January 2016 (**Appendix 47**) that productivity index had its limitations as it only measured the time required for transactions conducted over the counters and applied a ratio to project the time required for back-office activities. It could not fully reflect the workload and operational realities of individual post offices. It was necessary to refer to other mail traffic and resource information, along with the productivity index, for assessing the performance of each post office having regard to the operational circumstances of individual post offices. HKP had implemented a number of resource-management and business development measures to improve the productivity. Details of such measures, such as adjustment of the service hours of post offices, rationalization of the bulk posting counter work, staggering of duty hours of post office staff and flexible staff deployment for neighbouring post offices, counter automation, generation of service demand through new/expanded services, were provided in the letter. In the same letter, **Postmaster General** also set out in details HKP's effort to enhance its productivity and operational efficiency through automation,

12 According to Note 30 of the Audit Report, the productivity index was used by HKP to measure the manpower utilization at individual post offices.

Productivity index = Staff hours required ÷ Staff hours used × 100%

Staff hours required = Number of items handled × standard time applicable to the service

mechanization, work process re-engineering, load levelling measures and work-sharing with mailers.

Rationalization of post offices

44. The Committee enquired about the background behind HKP's efforts to rationalize the post office network and planning guidelines on the provision of post offices. In reply, **Postmaster General** explained at the public hearings and supplemented in her letter of 5 January 2016 (*Appendix 56*) that:

- according to the recommendations in the Director of Audit's Report No. 54, the Postmaster General should conduct regular evaluation of the demand for the postal services of individual post offices and their financial viability to ensure that the operation of each post office was justified, and critically explored the feasibility of closing down loss-making post offices with low demand for postal services;
- taking account of changes in postal behaviour locally over the years and to pave the way for rationalizing the post office network, HKP conducted a review of the standards and guidelines for post office provision set out in the Hong Kong Planning Standards and Guidelines in 2014. Following approval by the Committee on Planning, Land and Development chaired by Secretary for Development, the updated standards and guidelines for post office provision (*Appendix 63*) took effect in December 2014. In essence, the radius of the catchment area of a post office in urban areas had been increased from 0.8 km to 1.2 km;
- taking account of the updated planning standards and guidelines for post office provision and the following consideration factors, HKP had kept under review the operation, as well as financial viability, of individual post offices to see if they continued to be justified:
 - (a) whether the catchment area of the post office in question (i.e. the area covered by a radius of 1.2 km from the location of the post office) overlapped to a large extent with the catchment area(s) of adjacent post office(s);
 - (b) demand for postal services in the local community;
 - (c) the financial performance of the post office; and

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- (d) whether there were alternative postal facilities in the neighborhood of the post office that were conveniently accessible to local residents;
- in deciding on the solution to be adopted, HKP needed to take full account of the particular local circumstances in each case. Experience indicated that the local community was often resistant to any proposals to reduce the service level of post offices, despite dwindling service demand; and
- the existing three mobile post offices adequately catered for the service needs in locations which did not justify the operation of a post office. HKP would keep the situation under review and, where justified, adjust its service provision in response to the postal needs of the local community. In this connection, HKP would review the service points of the mobile post offices biennially.

45. In response to the Committee's enquiry about HKP's efforts to rationalize the post office network, **Postmaster General** explained at the public hearings and supplemented in her letter of 5 January 2016 (*Appendix 56*) that HKP would continue to monitor the overall performance of its post office network and take appropriate actions to ensure its cost-effective operation. HKP would continue to manage the costs of service provision, explore new revenue streams for its post office network and identify opportunities for further rationalization. While changes had been made to the scope of services and operation days/hours of Tsim Sha Tsui Post Office, Chuk Yuen Post Office, Lok Wah Post Office and other 59 post office, Cloud View Road Post Office and On Ting Post Office were closed.

Provision of mobile post offices

46. The Committee noted from paragraphs 3.14 to 3.17 about the performance of the three mobile post offices and asked HKP about its justifications for using mobile post offices and its review of the existing routes of the two mobile post offices serving the New Territories.

47. **Postmaster General** advised at the public hearings and supplemented in her letter of 5 January 2016 (*Appendix 56*) that HKP had recently completed a review on the three mobile post offices with results as follows:

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- for two mobile post offices servicing New Territories, i.e. Mobile Post Offices No. 1 and No. 2, the transaction pattern of all 58 service points served was analyzed. Taking account of changes in the postal service demand of the local community and the improved accessibility of alternative postal facilities in the neighbourhood of the existing service points, HKP would cease service provision at 13 service points that either have a low service demand or were within the service boundaries of post offices in the vicinity. HKP would also suitably adjust the frequency of visits to a number of service points to align with service demand with a view to optimizing resource utilization. HKP would implement the above-mentioned adjustments with effect from April 2016; and
- for Mobile Post Office No. 3, it currently had only one service point at Lok Wah Estate. HKP would keep its service provision under review having regard to the service demand of the local community.

48. In reply to the Committee's enquiry about the channels for HKP to inform the public about the visiting schedules of the mobile post offices so as to enhance the utilization of these offices, **Postmaster General** said in her letter of 5 January 2016 (*Appendix 56*) that:

- HKP displayed the visiting schedules of the mobile post offices at the service points and advertised them on HKP's website;
- the public might also make enquiries at the HKP enquiry hotline and the government hotline 1823; and
- to enhance communication to the local community, HKP would display notices/posters in the vicinity of the service points and at the offices of village representatives and the public enquiry service centres of Home Affairs Department. The information would also be disseminated to the relevant District Councillors.

E. Management of postal vehicles

Utilization of postal vehicles

49. The Committee noted from paragraph 4.12 and Table 14 that some postal vehicles were under-utilized, with some 15 vehicles had utilization rate of less than 50%. In this connection, the Committee enquired about:

- how the utilization rate of postal vehicles was calculated;
- reasons for the low utilization rates for these 15 vehicles; and
- measures to increase the utilization of these vehicles.

50. **Postmaster General** responded in her letter of 5 January 2016 (*Appendix 56*) that HKP was conducting a review on the formula and assumptions currently used for calculating the utilization rates for different types of HKP's vehicles with the objective of enhancing the management of HKP's vehicle fleet by making available more accurate and reliable utilization data. Under this review, HKP would update the pre-determined factors for calculating the vehicle utilization rates (e.g. vehicle available hours, loading and unloading time and the usage patterns of vehicles, etc.) taking account of the prevailing organization of postal operations and the deployment arrangements for different types of departmental vehicles. The updated formula and assumptions would be on trial in the first quarter of 2016. Subject to the successful completion of the trial, HKP planned to implement the updated methodology for calculating the utilization rates of departmental vehicles in April 2016.

51. On the 15 vehicles which had utilization rate of less than 50%, **Postmaster General** advised at the public hearings and supplemented in her letter of 8 January 2016 about the reasons for such low utilization (*Appendix 64*). In summary, the reasons for low utilization rates and the measures to increase utilization were:

- some vehicles were reserve vehicles to provide support when the regular fleet was under scheduled or unforeseen maintenance to ensure uninterrupted service provision. The reserve vehicles would be deployed to take up additional ad hoc duties as far as operationally practicable;

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- the methodology for calculating vehicle utilization rates did not reflect the usage pattern of the vehicles, e.g. the service duration of vehicles deployed for motorized beats was about 5.5 hours a day instead of nine hours a day as assumed under the prevailing methodology. HKP aimed to implement a revised methodology from April 2016 and the utilization of these vehicles would be reflected more accurately under the revised methodology;
- due to functional limitations of electric vehicles, they were generally used only for shorter journeys to ensure that they had a sufficient electricity supply; and
- utilization of the vehicles were limited by a shortage of drivers arising from the retirement and/or promotion of the incumbent drivers. HKP identified suitable candidates in the recent internal recruitment exercise conducted in September 2015. They would fill the vacancies once they had obtained a licence for driving government vehicles. To expand the pool of Postman Drivers, HKP would arrange more suitable candidates with a driving licence to attend training and take the test for driving government licences.

Postmaster General further said that with continuous effort to enhance the utilization of these vehicles, there was an improvement in the overall utilization rate of these 15 vehicles by 11 percentage points during the period from September to November 2015.

Management of hired vehicles

52. The Committee noted from paragraph 4.22 of the Audit Report that as at 31 March 2015, there were 16 hired vehicle contracts, of which 15 contracts were awarded to three contractors (involving 328 vehicles). For the preceding 16 contracts, 13 contracts were awarded to two contractors. One of the reasons for the award of contracts to just a few contractors was HKP's requirement on the minimum number of vehicles required in each contract. The minimum number required ranged from 20 to 38 for light goods vehicles, and ranged from 2 to 34 for trucks. The Committee enquired how HKP would promote tender participation and competition.

53. **Postmaster General** replied in her letter of 5 January 2016 (*Appendix 56*) that:

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- as HKP procured hired vehicle services by open tender, any service providers that were able to meet the tender specifications might submit a tender. HKP did not have information on the number of potential suppliers in Hong Kong that were able to meet the requirements on the minimum number of light goods vehicles and trucks under the respective tender exercises, which were set by reference to HKP's operational needs; and
- HKP was committed to encouraging market participation and market competition in its procurement of hired vehicle services in order to achieve better value for money, and had been taking action in this direction in its recent hired vehicle procurement exercises.

54. On HKP's measures to enhance monitoring and managing the performance of hired vehicles, **Postmaster General** pointed out in her letter of 8 January 2016 (*Appendix 47*) that HKP had an established mechanism for monitoring and managing the performance of hired vehicles to ensure that the service and performance requirements under contract were fully met. Details of various measures, such as the signing in/out, a vehicle daily log sheet, reporting any irregularities by HKP staff on board the hired vehicles, the use of IT, including the daily log sheets were captured electronically for generation of exception reports, and other administrative monitoring measures, were given in the letter. Consideration might be given to installing global positioning system on hired vehicles in the long run for efficient performance management of these vehicles.

F. Management of Central Mail Centre and General Post Office Building

55. The Committee noted that from paragraph 5.6 of the Audit Report that as at May 2015 accommodations were provided for some divisions/sections not listed on the approved Schedule of Accommodation of June 2010. In reply to members' enquiry about the reasons, **Postmaster General** explained at the public hearings that HKP aimed to optimize the utility of CMC. To achieve this, some divisions/sections which were located at offsite offices were re-located to CMC, thus saving the rental expenditure of these offices. Regarding the 46 vacant work stations mentioned in paragraph 5.11 of the Audit Report, **Postmaster General** provided an updated allocation plan for these work stations on the fifth floor of CMC in her letter of 8 January 2016 (*Appendix 65*).

56. The Committee noted that from paragraph 5.16 of the Audit Report that in the Director of Audit's Report No. 31 issued in October 1998, Audit had reported on the Government's slow progress in the redevelopment of GPO site to maximize its development potential. 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 as soon as possible. In order for Site 3 to be developed in accordance with the Study's recommendations, the GPO Building now located at the southern part of Site 3 had to be reprovisioned. The Committee sought further details about the progress of the reprovisioning exercise of the GPO Building.

57. **Postmaster General** explained at the public hearings and supplemented in her letter of 5 January 2016 (*Appendix 56*) that:

- the GPO Building was situated in Site 3 of the New Central Harbourfront. In accordance with the Urban Design Study for the New Central Harbourfront completed by the Planning Department, Site 3 had been earmarked for development as a comprehensive development area. It was Government's plan to develop this site upon the completion of the Central-Wan Chai Bypass and the relocation of the relevant facilities. The reprovisioning of the GPO Building would be taken forward in step with the development of Site 3, which Government expected to commence in the next two to three years;
- the GPO reprovisioning project comprised two parts, viz. reprovisioning of the district-tied facilities and reprovisioning of the HKP's Headquarters. The district-tied facilities (i.e. the GPO Counter Office and the Post Office Box Section, the GPO Delivery Office, and the Speedpost Section) would be reprovisioned to a location north of Lung Wo Road within Site 3 of the New Central Harbourfront to meet the postal needs of the local community. HKP's Headquarters would be reprovisioned to a government site adjacent to CMC in Kowloon Bay. In order to maintain service continuity, the GPO Building would be demolished upon the completion of the reprovisioning of the relevant facilities; and
- HKP aimed to consult the Central and Western District Council and the Kwun Tong District Council respectively on the two GPO-related reprovisioning projects in 2016.

G. Conclusions and recommendations

<p>Overall comments</p>

58. The Committee:

- notes that the underperformance of Hongkong Post ("HKP") could be attributable to the dual role of HKP as a trading fund and a government department. As a trading fund, HKP has the flexibility in deploying the revenue generated from the business to cover the cost of service provision on a self-financing basis and has to achieve a target rate of return set by Financial Secretary. This role, however, is constrained by its status as a government department which is required to follow government policies, regulations and rules, such as the annual salary adjustment of civil servants and the Government's Stores and Procurement Regulations. This constraint would also limit the intended flexibility allowed for HKP and may have an adverse impact on its competitiveness in an open market of postal and courier services;

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- regrets that there have been inadequacies and room for improvement in the management and operation of HKP as evidenced by the following:
 - (a) the Audit Commission ("Audit") has conducted six value-for-money audits on various aspects of HKP since 2001¹³ and the Committee has conducted hearings on "Financial performance of the Post Office" and "The Postal Mechanisation System at the Air Mail Centre" in 2002 and 2005 respectively;
 - (b) HKP did not achieve the target rates of return¹⁴ in 14 years of the 20-year period from 1995-1996 to 2014-2015, including the last six years since 2009-2010;

13 The six relevant chapters which have touched upon the operation of HKP are Chapter 9 of Director of Audit's Report ("Audit Report") No. 36, Chapter 6 of Audit Report No. 38, Chapter 7 of Audit Report No. 44, Chapter 2 of Audit Report No. 49, Chapter 8 of Audit Report No. 54 and the present one.

14 Under section 6(6) of the Trading Funds Ordinance (Cap. 430), HKP is required to achieve a reasonable return on fixed assets employed as determined by the Financial Secretary. The current target rate of return on fixed assets is 5.9%.

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- (c) HKP recorded operating loss in eight of the last 20 years from the establishment of the Post Office Trading Fund from 1995-1996 to 2014-2015;
 - (d) 103 (81%) of the 127 post offices of HKP (including three mobile post offices) recorded loss in 2014-2015, ranging from \$350,000 to \$5.2 million; and
 - (e) two mobile post offices have been operating at an annual loss of more than \$1 million each and during site inspection, Audit observed that each of the two mobile post offices serving various districts in the New Territories only served 11.5 customers and handled 12.5 items per day on average;
- recognizes that HKP is obliged to provide mail services falling under the universal service obligations which bear multiple characteristics: universal geographical coverage, whole range of postal products, universal access to services and facilities by the general public, affordable pricing, high service quality and security of mail. HKP has to honour the obligation to deliver any mail to every Hong Kong address at the same affordable price, with the same delivery frequency and security level;
 - notes that:
 - (a) the postal and courier services in Hong Kong is an open market with a relatively low barrier to entry and HKP has been facing keen competition from its competitors who could choose to compete in a niche and profitable market segment; and
 - (b) Secretary for Commerce and Economic Development has explained that the trading fund mode of operation is most suitable for HKP among other modes of operation, such as vote-funded department and corporatization/privatization, in view of the flexibilities allowed for HKP;
 - expresses dissatisfaction and disappointment that Postmaster General had not made her best efforts in exploring with the relevant bureaux/departments for enhanced flexibility that could address the institutional constraints faced by HKP;

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- urges Secretary for Commerce and Economic Development and Postmaster General to:
 - (a) fundamentally review the operation of HKP in its dual role as a trading fund and a government department;
 - (b) take the opportunity when the target rate of return for HKP is to be reviewed in 2016 to discuss with the Financial Services and the Treasury Bureau on a more realistic rate of return; and
 - (c) continue to explore measures to provide enhanced flexibility to facilitate HKP's operation;
- urges Postmaster General to conduct a review of the postal and courier market, in particular, the fast-expanding e-commerce, so as to identify a niche position for HKP which has a vast and comprehensive network of post offices;
- acknowledges that Postmaster General has undertaken that HKP would follow up with the Financial Services and the Treasury Bureau on the new rate of return for HKP in the review of the target rates of return for all trading funds in 2016 and would examine if there is scope for enhanced flexibility to facilitate HKP's operations in the review of the Framework Agreement between Secretary for Commerce and Economic Development and Postmaster General in 2016;
- wishes to be informed of the results of the discussion between Secretary for Commerce and Economic Development, Postmaster General and the Financial Services and the Treasury Bureau on the new rate of return for HKP and any new arrangements to enhance flexibility in HKP's operation;

Management of mail processing

Insufficient postage

- expresses concern that HKP has not implemented sufficient measures to detect and follow up on mail items with insufficient postage paid as evidenced by the following:
 - (a) 43 (86%) of 50 test letters (including 12 of the 13 test letters without postage stamps) sent out by Audit in mid-June to

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mid-July 2015 successfully passed through the detection mechanism implemented by HKP and were delivered to the addressees without being surcharged;

- (b) according to Audit's risk-based weighing test of 546 mail items conducted at the Central Mail Centre on 17 July 2015, 263 (48.2%) of them were underpaid; and
 - (c) some of the test letters had been detected by HKP staff but they were nonetheless delivered to the addressees without being surcharged;
- urges HKP to strike a balance when considering utilizing its already constrained manpower and resources to detect mail items with insufficient postage and recover underpaid postage to achieve cost-effectiveness in the use of resources. However, HKP should also have regard to the deterrent effect of its actions and the message its actions will convey to the public about the importance of paying sufficient postage for their mail items as part of the educational and promotional work;
 - acknowledges that HKP has implemented new measures to address mail items with underpayment of postage, including:
 - (a) stepping up staff awareness of their role to protect HKP's revenue;
 - (b) increasing the minimum quantity of mails to be checked by supervisors;
 - (c) centrally processing all mail items identified to carry insufficient postage at the Central Mail Centre and enhancing management control over surcharged items; and
 - (d) stepping up publicity and public education on the responsibility of mailers to pay sufficient postage;

Tendering of airfreight services

- expresses concern that for HKP's 2014-2015 tender exercise of airfreight services for its Speedpost and airmail, HKP did not provide

accurate information to the Central Tender Board¹⁵ on the results of the financial vetting of the tenderers and HKP's justifications for waiving the contract deposits when it sought the approval of the Central Tender Board for the award of the contracts;

- urges HKP, as a government department, to follow the Government's Stores and Procurement Regulations in tender exercises. It should provide sufficient justifications and documentation for its decisions which depart from the regulations and established practice for the relevant authority's approval to increase transparency and accountability;

Overtime work of HKP staff

- notes that as the number of staff employed by HKP had decreased from 7 230 in 2010-2011 to 7 032 in 2014-2015, the number of overtime hours for 2014-2015 was at a high level of 1 362 941;
- expresses dismay and serious concern that HKP has failed in its efforts in supervising and monitoring the overtime work of its staff as evidenced by the following:
 - (a) despite that according to the Civil Service Regulations, overtime work performed should normally be compensated by time-off in lieu ("TOIL") and 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, overtime hours worked by HKP staff had long been mainly compensated by OTA rather than compensated by TOIL. For instance, the number of overtime hours for 2014-2015 was 1 362 941, of which 1 115 234 hours (81.8%) were compensated by OTA (\$179 million);
 - (b) a comprehensive review on the standard time for processing and delivering different mail items had not been conducted since 2008 and there had been delays in undertaking regular beat revisions. These factors are essential in formulating the standard workload of a delivery postman and whether overtime work has to be performed;

¹⁵ The Central Tender Board, chaired by 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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- (c) Beat Survey Team only carried out supervisory checks of 48 beats a year, representing only 2.7% of the 1 756 beats in 2014-2015;
 - (d) 14 staff of the Air Mail Centre had worked the largest number of overtime hours in all the five years from 2010-2011 to 2014-2015. They worked some 990 to 1 440 hours of overtime each year; and
 - (e) for 2014-2015, eight staff of the Postal Officer grade and 20 staff of the 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, contrary to Civil Service Bureau Circular No. 18/2000 which stipulates 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 Civil Service Regulations;
- notes that Postmaster General has explained that overtime work is mainly caused by special commitment (e.g. exceptionally heavy mail arrivals which are outside the handling capacity of scheduled staff which fluctuates during a day, week, month and year). Changes in mail traffic are often difficult to predict and are beyond HKP's control. HKP also faces institutional manpower shortage at specific stages of recruitment/promotion exercises;
 - acknowledges that HKP has implemented new measures to monitor and minimize the overtime work of HKP staff including:
 - (a) using technological solutions for automation and streamlining operation, such as upgrading the Mechanized Letter Sorting System and developing a Chinese Character Optical Recognition capability for the Mechanized Letter Sorting System to increase the efficiency of local mail processing;
 - (b) rationalizing the operation and service hours of post office services and the duty hours of post office staff;
 - (c) recruiting additional temporary staff to assist in some of the backend work processes;

- (d) conducting a comprehensive review to provide an updated basis for workload assessment for delivery postmen in 2016 and aiming to complete all outstanding beat revision exercises by the end of 2017; and
 - (e) reviewing the functional requirements for the portable digital assistant carried by delivery postmen which will be replaced from third quarter 2017 to first quarter 2018 to see whether new functions such as global positioning and/or tour monitoring system should be added for enhancing control of outdoor duties; and
- urges HKP to:
- (a) maintain close communication with its staff and the workers' unions to understand the problems faced by the frontline staff in their daily work and work together with the staff and unions to devise any new measures to address the significant overtime issue;
 - (b) act as a good employer by closely monitoring the workload of its staff. Consideration should be given to exploring the use of new technology and work re-engineering in the workflow in order not to overburden HKP staff with regular overtime work;
 - (c) conduct a comprehensive review on the manpower situation and deployment and explore measures, including the need for additional civil servant posts and/or non-civil-service contract staff, to address the manpower shortage problem with a view to alleviating the significant overtime work of its staff;
 - (d) expedite a comprehensive review of the standard time for processing and delivering different mail items and conduct regular beat revision exercises in order to formulate an updated workload for delivery postmen; and
 - (e) implement effective measures to monitor and control the granting of overtime work for its staff.

Specific comments

59. The Committee:

Management of mail processing

- expresses concern that:

- (a) while the risk of underpayment was lower for 88% of locally posted mail items which were prepaid or paid by permit/meter/postage label, there is room for improvement in HKP's measures in preventing or detecting underpayment of postage for the remaining 12% of locally posted mail items which were paid by stamps (about 400 000 per day), as revealed by the results of the following three different tests conducted by Audit:
 - 43 (86%) of the 50 test letters with no or insufficient postage posted by Audit in June and July 2015 successfully passed through the detection mechanism of HKP without being surcharged;
 - postage was underpaid for 263 (48.2%) of 546 mail items that in appearance did not have sufficient postage checked by Audit, and the total underpayment was 39.4% of the correct postage required for the 263 underpaid items; and
 - for 1 190 mail items selected randomly by Audit, 97 (8.2%) were found to be underpaid, and the postage underpaid represented 29.8% of the correct postage of the 97 underpaid items and 3.5% of that of all the 1 190 mail items;
- (b) in the 2014-2015 airfreight services tender exercise, HKP did not require the tenderers who failed the financial vetting and whose estimated contract value exceeded \$5 million to submit a contract deposit as required by the Government's Stores and Procurement Regulations. HKP had neither provided accurate information to the Central Tender Board on the results of its financial vetting nor the justifications for waiving the contract deposits; and

- (c) HKP's conveyance computer system did not capture instances where the daily actual allotment of mail items to contractors of airfreight services did not follow the intended allotment sequence;

Overtime work of HKP staff

- expresses dismay and serious concern that:
 - (a) many civil servants working in HKP worked overtime, which were compensated mainly by OTA rather than by TOIL. In 2014-2015, OTA of \$179 million were paid to compensate 81.8% of the overtime hours of 1 362 941. OTA payment represented, on average, 15.4% of the salaries of some 4 200 civil servants who were paid OTA;
 - (b) HKP had not carried out comprehensive review on the standard time for processing and delivering different mail items since March 2008;
 - (c) there were substantial delays in carrying out beat revision exercises to assess the workload of the delivery postman of each delivery beat;
 - (d) the Beat Survey Team only carried out supervisory checks on 48 beats a year representing only 2.7% of the 1 756 beats in 2014-2015; and
 - (e) in the five-year period from 2010-2011 to 2014-2015, some staff had worked significant amount of overtime; some staff were not required to exhaust TOIL before taking vacation leave; and some staff had taken long sick leave and worked long overtime;
- notes that Postmaster General has agreed with Audit's recommendations in paragraphs 2.15, 2.29, 2.39, 2.55 and 2.66 of the Director of Audit's Report ("Audit Report");

Management of post offices

- expresses serious concern that:
 - (a) the number of post offices making operating loss increased from 90 (70% of 128 post offices) in 2010-2011 to 103 (81% of 127 post offices) in 2014-2015. Of the 127 post offices in 2014-2015, 84 (66%) made operating loss in all the five years in the period from 2010-2011 to 2014-2015;
 - (b) for 2014-2015, the productivity indices (used by HKP to measure the manpower utilization at individual post offices) were below 70% in 28 post offices. For these post offices, 16 post offices' productivity indices were consistently below 70% for the three years from 2012-2013 to 2014-2015; and
 - (c) during Audit's site inspection, the number of customers and items handled by the two mobile post offices serving the New Territories were small (11.5 customers and 12.5 items per day each on average). The annual operating loss incurred by each of these two mobile post offices has been more than \$1 million;
- notes that Postmaster General has agreed with Audit's recommendations in paragraphs 3.12 and 3.18 of the Audit Report;

Management of postal vehicles

- expresses dissatisfaction that:
 - (a) there were shortcomings in HKP's calculation of the utilization rates of its departmental vehicles. For instance, the pre-determined loading/unloading time for some types of vehicles were long and some loading/unloading time was incorrectly counted as usage time;
 - (b) for 2014-2015, the utilization rate of 15 of the 265 HKP's vehicles used for mail transportation was 50% or below;
 - (c) supervisory checking was conducted less frequently than as required by the supervisory measures set by HKP in respect of vehicles deployed to Motorized Delivery Beat and Speedpost/Parcel Team; and

- (d) HKP relied on a few contractors to provide hired vehicles. As at 31 March 2015, of the 16 hired vehicle contracts, 15 were awarded to three contractors. There were only a small number of tenderers in the tendering exercises conducted in 2013 to 2015;
- notes that Postmaster General has agreed with Audit's recommendations in paragraphs 4.18 and 4.29 of the Audit Report;

Management of Central Mail Centre and General Post Office Building

- expresses concern that:
 - (a) HKP had not sought in a timely manner the Property Vetting Committee's approval for changes to accommodations reprovisioned from the International Mail Centre to the Central Mail Centre;
 - (b) nearly half (some 300 square metres) of the open plan area of the Central Mail Centre (involving 46 work stations) was not in use; and
 - (c) some 30 years have lapsed since the Government started planning for the relocation of the General Post Office Building (located at Connaught Place, Central) and the site has yet to be redeveloped;
- notes that Postmaster General has agreed with Audit's recommendations in paragraphs 5.13 and 5.20 of the Audit Report; and
- notes the advice by Postmaster General that the General Post Office Building will be reprovisioned in two batches. The Headquarters will be relocated to a government site adjacent to the Central Mail Centre in Kowloon Bay. The relevant public works project for the building is in progress. As regards the remaining facilities at the General Post Office Building, that is, the district post office and the delivery office, they would be reprovisioned in the redeveloped Site 3¹⁶ in Central. According to the information provided by the Development Bureau, it is forecasted that Site 3 will be developed in the coming two or three years.

¹⁶ Site 3 of the Central Harbourfront Development is a comprehensive development area located at the north of Statue Square.

Follow-up action

60. The Committee wishes to be kept informed of:
- the progress made in implementing the various recommendations made by the Committee and Audit; and
 - the results of the discussion among the Commerce and Economic Development Bureau, HKP and Financial Secretary on the review of the new target rate of return for HKP in 2016 and any new arrangements to be implemented to enhance the flexibility of the operation of HKP.

Burial and cremation services

The Audit Commission ("Audit") conducted a review of the burial and cremation services provided by the Cemeteries and Crematoria Section of the Food and Environmental Hygiene Department ("FEHD"). FEHD 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 view of the public concern over the shortage in supply of public niches and the regulation of private columbaria in recent years, the Government has adopted a three-pronged strategy in its columbarium policy, i.e. increasing the supply of public columbaria, enhancing the regulation of private columbaria and promoting green burials.

2. The Committee noted the following findings from the Director of Audit's Report:

- FEHD introduced in 2010 the District-based Columbarium Development Scheme ("the Scheme") and identified 24 sites in 18 districts for columbarium development. However, the implementation progress of the Scheme was not satisfactory. The Administration was unable to set a definite timetable for consultation with relevant District Councils on 16 projects. Only two small projects (2 540 niches) had been completed up to July 2015 and the next major project (160 000 niches) would not be completed until 2019. As a result of project delays, there would be practically no supply of new public niches under the Scheme from 2016 to 2018;
- according to the proposed licensing scheme under the Private Columbaria Bill, it would be an offence to operate a private columbarium without a licence/an exemption/a temporary suspension¹ of liability. In order to apply for an exemption, a private columbarium must have ceased selling or letting out niches since the announcement of the Bill on 18 June 2014. In this connection, supply of niches from private columbaria has been affected;
- when the proposed licensing scheme came into operation (expected to be in mid-2016), all private columbaria could not sell or let out niches unless they had obtained licences. However, application for a licence could only be made three months later to allow time for the setting up of the Licensing Board. Moreover, time was required for processing

¹ 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.

Burial and cremation services

applications before licences could be issued, 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;

- many private columbaria did not comply with statutory and government requirements arising from town planning, land leases and building safety, and the enforcement actions against unauthorized private columbaria were not adequate. The number of unauthorized private columbaria increased from 52 to 124 between December 2010 and June 2015;
- FEHD allocated some 45 000 new public niches in three phases from 2012 to 2015 by computer balloting, leaving many public niches vacant for a long time and some unsuccessful applicants waiting endlessly;
- a public niche was designed to hold two urns (standard niche) to four urns (large niche). However, the utilization of urn spaces in public niches was low. About 155 000 (77%) of some 201 000 occupied niches had unused urn spaces that could hold a total of around 176 000 additional urns;
- FEHD conducted on-site surveys of 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 FEHD records. Nevertheless, FEHD did not take follow-up actions until it received exhumation applications, and it had only completed the follow-up of 1 455 mismatch cases. FEHD also had not disclosed the survey results and the progress of following up mismatch cases;
- FEHD had been taking measures since 2007 to encourage the community's acceptance of more sustainable forms of green burials, including the scattering of ashes at gardens of remembrance and at sea, so as to provide a more sustainable way for disposal of cremated ashes. Despite FEHD's promotion efforts, green burials account for only 9% of cremations in 2014; and
- cremation of traditional coffins was considered costly and not environmentally friendly as they were made of wood. In 2006, FEHD started to promote the use of eco-coffins (made of recycled paper/cardboard rather than wood). However, among the

41 244 cremations of dead bodies in 2014, there were only 829 (2%) cases of using eco-coffins.

3. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding measures to step up and expedite the implementation of the Scheme, the handling of vacant urn burial spaces and mismatch cases of urn graves, utilization of public niches and urn graves, issues of promotion and management of the service of temporary storage of cremated ashes, policy to address the shortage in short-term supply of private niches, the effectiveness of FEHD's Online Cremation Booking Service System and promotion strategies for the use of eco-coffins. The replies from **Director of Food and Environmental Hygiene** are in *Appendix 66*.

4. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.

Efforts of the Narcotics Division and Beat Drugs Fund in combating drug abuse

The Audit Commission ("Audit") conducted a review of the work of the Narcotics Division ("ND") in combating drug abuse, including the administration of the Beat Drugs Fund ("BDF") with a view to identifying room for improvement.

2. ND of the Security Bureau is responsible for coordinating policies and measures across the public sector, non-governmental organizations and the community to combat the drug abuse problem. To promote community efforts to beat drugs, the Government also established BDF in March 1996 with a capital outlay of \$350 million to generate investment income for financing anti-drug projects. BDF is administered by the Governing Committee of the Beat Drugs Fund Association with secretariat support provided by ND.

3. Under the Regular Funding Scheme, BDF supports community-driven anti-drug activities in various areas. Through the Special Funding Scheme, BDF also provides financial assistance to the Drug Dependent Persons Treatment and Rehabilitation Centres to carry out capital works for meeting the licensing requirements and enhancing their service capacity.

4. Hon CHAN Hak-kan declared that he was a member of the Governing Committee of the Beat Drugs Fund Association.

5. The Committee noted the following findings from the Director of Audit's Report:

- while the number of reported drug abusers decreased from 14 115 to 8 926 between 2005 and 2014, the hidden drug abuse problem had worsened and the number of psychotropic substance abusers had exceeded that of narcotics drugs abusers since 2007. The median length of drug abusing experience of newly reported abusers increased from 1.7 years to 5.2 years between 2007 and 2014, and the situation was more serious for those aged 21 and above with the figure at 7.2 years in 2014;
- a Healthy School Programme with a Drug Testing Component ("HSP(DT)") had been launched since 2011-2012 school year for early identification and intervention of the youth at risk, but only 92 (19%) of 479 local secondary schools participated in HSP(DT) in 2015-2016. The overall proportion of students joining the voluntary drug testing of

Efforts of the Narcotics Division and Beat Drugs Fund in combating drug abuse

HSP(DT) dropped from 48% in 2011-2012 to 43% in 2014-2015. ND had engaged a contractor to conduct an independent evaluation research on HSP(DT) in 2015-2016 to review the effectiveness, administration and monitoring of the programme and make recommendations;

- ND collected drug abuse information through the Central Registry of Drug Abuse ("CRDA") to facilitate the planning of anti-drug strategies. Nevertheless, CRDA was only voluntary-based. From 2011 to 2014, 39 (54%) of the 72 reporting agencies had not reported any cases to CRDA. According to the non-identifying information (i.e. without personal identity) collected by ND, in 2013, information on 1 055 drug abusers was not reported to CRDA;
- screened-in applications for Regular Funding Scheme would be passed to respective vetting panels for assessment. However, no marking scheme was drawn up to facilitate panel members' assessment; and
- the number of annual applications under the Regular Funding Scheme of BDF decreased from 349 to 54 between 2010 and 2014. The 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 projects to address the prevailing drug abuse trend, there were no approved projects for 10 (17%) priority areas. The number of applications under the Special Funding Scheme of BDF was also lower than expected.

6. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the measures against hidden drug abuse problem, the comprehensiveness and the accuracy of drug-related statistics, the promotion of HSP(DT) and the management of BDF. The replies from Commissioner for Narcotics are in *Appendices 67 and 68*.

7. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit. In this connection, ND is requested to update the Committee every six months on the progress and results of the independent evaluation research of HSP(DT) and the progress in adopting a marking scheme with weightings and passing marks for each assessment criterion for the funding exercises of the Regular Funding Scheme.

Protection of revenue on dutiable commodities and motor vehicle first registration tax

The Audit Commission ("Audit") conducted a review of the efforts of the Customs and Excise Department ("C&ED") in protecting government revenue from excise duties on dutiable commodities ("DCs") and motor vehicle first registration tax.

2. 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 DCs), no matter they are imported or manufactured locally. Under the Motor Vehicles (First Registration Tax) Ordinance (Cap. 330), motor vehicle first registration tax is levied on all motor vehicles for use in Hong Kong. C&ED is responsible for the protection and collection of excise duties, and the assessment of provisional taxable values of vehicles, while motor vehicle first registration tax is collected by the Transport Department. In protection of excise duties, 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.

3. The Committee noted the following findings from the Director of Audit's Report:

- customs clearance of DC consignments entering or exiting Hong Kong was used to detect duty evasion and non-compliance with the conditions specified on DC permits. Of the 2 461 permits issued for the import/export of DCs by sea via public cargo working areas in 2014, C&ED did not impose permit conditions for 700 (28%) permits to enable its staff to arrange checking of DCs. Moreover, of the 6 962 permits issued for the import/export of DCs through land control points in 2014, 232 (3%) did not have the necessary endorsement, and the permit holders of 10 cases did not present DCs for customs clearance at the control points. However, C&ED only prosecuted one case and verbally reminded the permit holders of the remaining nine cases, including two who had multiple cases of non-compliance, to comply with the customs-clearance permit condition;
- 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 C&ED's laid-down requirements;

Protection of revenue on dutiable commodities and motor vehicle first registration tax

- as at April 2015, 34 owners had DCs left idle for more than three years in 11 warehouses. An ageing analysis conducted by Audit of these DCs showed 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 10 years. Despite C&ED had urged warehouse operators to contact DC owners for arranging their DCs to be removed or their records in the warehouse updated, C&ED staff had not followed the guidelines to serve notices on the owners concerned;
- there were inadequacies in C&ED's management of seized goods and documentary exhibits. In 2013, Internal Audit Division of C&ED found a shortage in the physical quantity of motor spirit stored in its Chai Wan godown since seizure in 2002 as compared to the stock record. In July 2015, Audit found five similar cases and one case of mislaid documentary exhibits. C&ED considered that the above discrepancies in the quantities of the seized motor spirit were due to natural evaporation. However, for all six cases, C&ED did not report any discrepancies in its stocktaking exercises during the period of storage; and
- due to the prosecution time bar specified in the Motor Vehicles (First Registration Tax) Ordinance, investigations of suspected offences in relation to 152 vehicles in 2012 were not conducted.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding C&ED's enforcement actions against the cases of non-compliance with customs-clearance permit conditions and abuse of duty-free cigarette concession, the handling of idle DC stocks in bonded warehouses and long outstanding cases of seized goods and vehicles, and the timeframe for introducing the legislative amendments of the Motor Vehicles (First Registration Tax) Ordinance. The replies from Secretary for Financial Services and the Treasury and Commissioner of Customs and Excise are in **Appendices 69 and 70** respectively.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.

The Audit Commission ("Audit") conducted a review of the Highways Department's ("HyD") management of the public lighting system.

2. As at April 2015, the public lighting system comprised 145 823 road lights, 79 225 special lights and 10 820 traffic bollards. HyD had awarded three contracts to contractors for the management, installation, operation and maintenance of road lights and traffic bollards ("MOM contracts") with a total contract value of \$693 million. HyD had also entered into a Service Level Agreement ("SLA") with the Electrical and Mechanical Services Trading Fund ("EMSTF") of the Electrical and Mechanical Services Department for the maintenance of special lights. HyD required the contractors of MOM contracts and EMSTF to respectively maintain the monthly availability of the road lighting system in the designated contract areas and special lighting system at the levels as specified in the MOM contracts and SLA¹.

3. The Committee noted the following findings from the Director of Audit's Report:

- HyD had set 51 vehicular routes for night inspections, and the routes to be inspected each night were randomly selected by a computer programme. However, Audit found that as at April 2015, the above vehicular routes only covered 93 391 lighting points (i.e. 64% of the 145 823 lighting points) and did not cover some lighting points on new roads. According to HyD, the random nature of the route selection by computer programme had also led to the uneven coverage. In this connection, there might be a risk of undetected outage or substandard performance of the contractors of the MOM contracts in relation to uninspected lighting points;
- the contractors of the MOM contracts were paid a monthly lump-sum fee to carry out scheduled maintenance works according to the frequencies stipulated in the MOM contracts. However, as at April 2015, 14 types of scheduled maintenance works had not been carried out in accordance with the stipulated frequencies, with some outstanding for over four years and payments for which had already been made;

¹ According to the MOM contracts, the monthly availability of the road lighting system in the designated contract areas should be maintained at not lower than 99.5%. As stipulated in SLA, the target average equipment availability should be 99.5% on a monthly basis.

- upon receipt of fault calls, the contractors of the MOM contracts were required to arrive on site and to resume the operation of the road lighting equipment within the time limits specified in the MOM contracts. From June 2014 to May 2015, a contractor had used different commencement point for the time limit contrary to that specified in the MOM contracts; 576 cases of non-compliance with the time limits for responding to fault calls had not been reported;
- EMSTF had subcontracted the maintenance of 58 997 (74%) of general special lights but failed to incorporate some SLA requirements or revised requirements of a new SLA in the subcontracts, such as the 99.5% equipment availability requirement. For 2014-2015, the 99.5% equipment availability was not met;
- in the absence of a laid-down time limit on rectifying faults of general special lights identified during regular patrols, there were 325 cases of delay as at June 2015; and
- as at March 2015, 649 (42%) of the 1 534 approved road lights pending installation had been outstanding for one to three years, with 71 (5%) outstanding for more than three years. Moreover, during the period from 2005-2006 to 2015-2016, the annual quotas of village lighting installation varying from 400 to 2 000 were insufficient to meet village lighting applications. The backlog of waitlisted village lights was 2 693 as at June 2015. In addition, as at October 2015, of the 1 461 approved village lights pending installation, 553 (38%) had been outstanding for more than three years.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the arrangement of entrusting the operation and maintenance of special lights to the Electrical and Mechanical Services Department, the monitoring of the performance of the contractors of the MOM contracts and EMSTF, issues relating to the inspection arrangements and the installation of village lights. The replies from Director of Highways, Director of Electrical and Mechanical Services and Director of Home Affairs are in ***Appendices 71 to 72, 73 and 74*** respectively.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.

Support for Self-reliance Scheme

The Audit Commission ("Audit") conducted a review of the Social Welfare Department's ("SWD") administration of the Support for Self-reliance ("SFS") Scheme.

2. To encourage and assist employable recipients of Comprehensive Social Security Assistance ("CSSA") to secure employment and achieve self-reliance, SWD has implemented the SFS Scheme since June 1999. In January 2013, SWD integrated the various employment assistance programmes under the SFS Scheme into an Integrated Employment Assistance Programme for Self-reliance ("IEAPS"). 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). According to SWD, the types of occupation secured by IEAPS participants mostly included labourer, waiter/waitress, salesperson, cleaner and watchman/guard.

3. The Committee noted the following findings from the Director of Audit's Report:

- under the SFS Scheme, SWD awarded contracts to 26 non-governmental organizations ("NGOs") for 41 IEAPS projects from January 2013 to March 2015. The relevant NGOs were required to comply with the service requirements (e.g. service capacity and staffing) and performance requirements (e.g. minimum job-securing rates) as specified in the IEAPS contracts. However, some projects achieved lower job-securing rates and off-CSSA-net rates. Four projects in Category I and II services had job-securing rates less than 15%, compared with the required minimum of 20% for employment of at least one month (for Category I services). Four projects in Category III services had job-securing rates less than 20%, compared with the required minimum of 40% for employment of at least one month. Moreover, only 2 048 (3.8%) of the 54 113 IEAPS participants had successfully left the CSSA net;
- only 61% and 70% of the total service capacity of Category I and Category III services required to be provided by the NGOs were used respectively. SWD had not effectively required the NGOs with more

Support for Self-reliance Scheme

than 10% unused service capacity to provide additional services in accordance with the IEAPS contracts;

- the total classroom training hours provided by the relevant NGOs were 10 716 (6%) less than the requirement specified in the IEAPS contracts. The total work exposure service sessions provided during the contract period were 151 188 (23%) less than the total requirement for the 41 projects;
- there were no records to indicate that, in granting exemption from attending activities of service programmes to service recipients claiming that they were taking up casual employment on the same day, SWD or the relevant NGOs had considered the risk of abuse and taken action to verify such claims;
- there were instances of non-compliance by the relevant NGOs with SWD procedural guidelines in providing employment assistance services (e.g. service recipients did not attend at least two work exposure service sessions per week as required), and the non-compliance could reduce the effectiveness of IEAPS;
- there were limitations in SWD's computer information system (e.g. records of CSSA recipients and SFS Scheme participants were separately maintained in separate systems), rendering it difficult for SWD to conduct comprehensive data analysis regularly and efficiently. Also, SWD did not have a breakdown of the resources required for the implementation of the SFS Scheme and had not released the performance targets or indicators for the services to report on the overall performance of the SFS Scheme; and
- according to SWD, based on the on-going monitoring, the NGOs' performance was generally satisfactory. However, Audit was of the view that some NGOs had poor performance, and SWD commissioned the same 26 NGOs to continue running the 41 projects for two years after expiry of the original IEAPS contracts, without evaluating the NGOs' performance in a comprehensive manner.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the performance and cost-effectiveness of the 41 IEAPS projects led by the 26 NGOs, SWD's monitoring of IEAPS and measures to enhance the implementation of the SFS Scheme. The replies from Secretary for

Labour and Welfare and Director of Social Welfare are in *Appendices 75 and 76 to 77* respectively.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit. In this connection, SWD is requested to update the Committee every six months on the progress of the SFS Scheme.

Shine Skills Centre

The Audit Commission ("Audit") conducted a review of the operation of the Shine Skills Centre ("SSC") of the Vocational Training Council ("VTC") in the provision of vocational training to persons with disabilities ("PWDs") for open employment.

2. SSC is a member institution of VTC Group and a major institution that provides vocational training to PWDs aged 15 or above for open recruitment. SSC operates its three vocational training sites in Kwun Tong, Tuen Mun and Pokfulam. The programmes and services provided to PWDs by SSC include vocational assessment service, full-time training programmes, part-time training courses, provision of technical aids and rehabilitation and boarding services. For the 2014-2015 school year, SSC offered 660 full-time training places and 400 part-time training places.

3. The Committee noted the following findings from the Director of Audit's Report:

- the Shine Vocational Assessment Service ("SVAS") will conduct vocational assessments¹ for PWDs to assess their suitability for attending SSC's full-time training programmes. For PWDs who were assessed as unsuitable for vocational training, SVAS would recommend them to attend other programmes provided by other non-governmental organizations ("NGOs") (e.g. sheltered workshops and day activity centres). SVAS would not release the assessment results and recommendations to these PWDs before the completion of assessment reports for their alternative arrangements. In 2013-2014 school year, of the 15 specific vocational assessment reports examined by Audit, 11 were issued later than the target time of four weeks by five to 14 weeks;
- SSC had not set a target time for processing PWDs' admission applications for full-time training programmes. Of the 30 applications in 2013-2014 school year examined by Audit, nine (30%) of them took more than three months to process;
- SSC conducted annual assessment on the completion rates of full-time training programmes for each vocational training sites, but there was

¹ SVAS offers two types of vocational assessments, i.e. specific vocational assessment and comprehensive vocational assessment, to evaluate the PWD's vocational strengths and potential, and suitability for attending the programme.

no record showing the dropping out reasons for 14 students in 2013-2014 school year;

- SSC reported on the VTC website and to the Legislative Council the employment rate of 94% for 2013-2014 graduated students without disclosing the calculation method. However, SSC included those in supported employment or working in sheltered workshops in calculating the percentage of graduated students in employment. In fact, only 137 (52.1%) of the 263 SSC students graduated in 2013-2014 school year were in open employment;
- SSC had a total of nine Student Counsellors to provide, inter alia, career guidance services to the students. However, SSC had not set benchmarks on the numbers of jobs secured and trial work placements arranged for students by the Student Counsellors and there were under-performance in the numbers of job secured and placements arranged for some Student Counsellors;
- SSC conducted employer satisfaction survey by sending out questionnaires to graduated students' employers to gauge their levels of satisfaction on SSC's full-time training programmes and the students they hired. However, the Student Counsellors would only send a questionnaire to those employers who, based on their experience, would be willing to respond to the questionnaire;
- SSC carried out annual employment surveys covering graduated students of the immediate past academic year, but it did not request graduated students to state whether their employment was under the Work Orientation and Placement Scheme² of the Labour Department, and it did not monitor the employment status of graduated students in the longer term. Moreover, in the period 2011-2012 to 2013-2014 school years, four training programmes, i.e. "Programme assistance practice", "Computer and network practice", "Catering and housekeeping practice" and "Office practice" rated by more than 50% of the graduated students as "fairly relevant" or "not relevant" to employment;

² Financial incentives are provided to employers who participated in the Work Orientation and Placement Scheme 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 Selective Placement Division of the Labour Department as having employment difficulties.

Shine Skills Centre

- there were neither assessment forms nor board reports in three (out of the 37) recruitment exercises conducted by SSC in the period from 2012-2013 to 2014-2015 school years for short-term contract staff. Job applications for two of these three exercises were also missing;
- all VTC's teaching staff and some other designated staff were encouraged to attain not less than 40 continuous professional development hours within two consecutive years under a non-mandatory Scheme since 2010-2011 school year. However, in the period 2012-2013 to 2013-2014 school years, 29 (46%) staff attained less than 40 continuous professional development hours, while four of these 29 staff did not attain any continuous professional development hours at all; and
- the second floor (391 square metres) and the seventh floor (411 square metres) of the Shine Skills Centre (Pokfulam) building had been vacant since June 2012 and July 2005 respectively. In September 2010, VTC proposed to release the two floors for use by the Social Welfare Department ("SWD"), and the Labour and Welfare Bureau ("LWB") agreed with the proposal in October 2010. In April 2015, VTC intended to withdraw the above proposal and sought LWB's support for remodelling the two floors for enhancing the training for SSC's students. In June 2015, LWB declined VTC's above proposal and the two floors would be used for setting up a day activity centre and a hostel for severely mentally handicapped persons.

4. The Committee did not hold any public hearing on this subject. It conducted a visit to the Shine Skills Centre (Pokfulam) on 19 January 2016 to better understand the training programmes conducted at SSC and the existing use of the two vacant floors at the Shine Skills Centre (Pokfulam) building. The Committee also asked for written responses regarding the effectiveness of the services provided by SSC to PWDs and details of improvement measures in response to Audit's recommendations. The replies from Secretary for Labour and Welfare and the Executive Director of VTC are in **Appendices 78 and 79** respectively.

Shine Skills Centre

Photograph 1



Members of the Committee were briefed on the training programmes conducted at SSC and the use of the two vacant floors during the visit to the Shine Skills Center (Pokfulam).

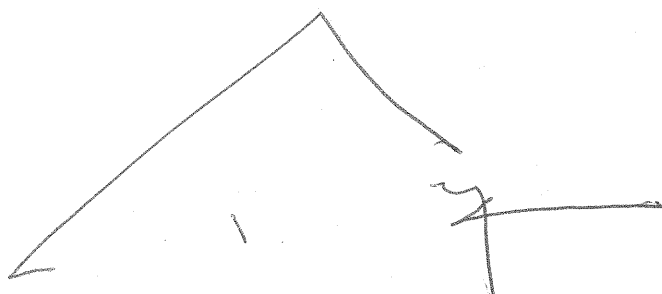
5. The Committee notes that SWD has reserved the two vacant floors at the Shine Skills Centre (Pokfulam) building for the operation of a day-care centre and hostel for persons with severe intellectual disability. The Committee considers that the Administration should formulate a holistic rehabilitation policy to provide comprehensive training and lifelong support for PWDs to prepare them for open employment and better integration into the community. In implementing this policy, LWB, as the responsible bureau, should better coordinate public organizations, NGOs and SWD in the provision of different services for PWDs. In this regard, the Administration should consider allocating more resources, including additional floor spaces, to VTC for enhancing and expanding SSC's training programmes.

6. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.

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



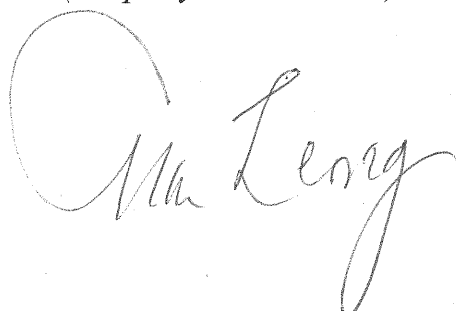
Abraham SHEK Lai-him
(Chairman)



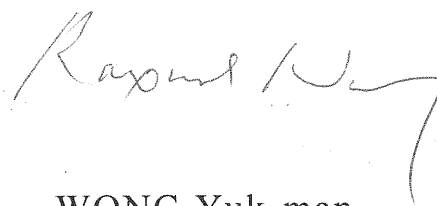
Paul TSE Wai-chun
(Deputy Chairman)



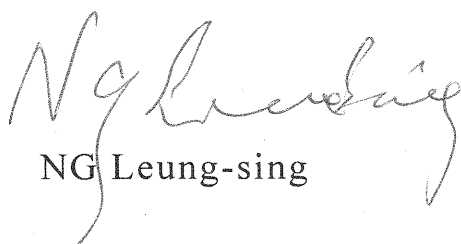
CHAN Hak-kan



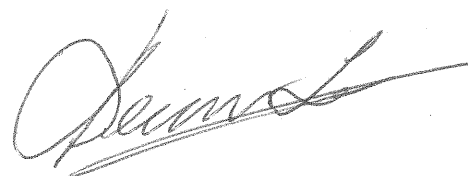
Alan LEONG Kah-kit



WONG Yuk-man



NG Leung-sing



Kenneth LEUNG

27 January 2016

**CHAPTERS IN THE DIRECTOR OF AUDIT'S REPORT NO. 65
DEALT WITH IN THE PUBLIC ACCOUNTS COMMITTEE'S REPORT**

**Director of
Audit's Report
No. 65**

**P.A.C.
Report No. 65**

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

**RULES OF PROCEDURE OF
THE LEGISLATIVE COUNCIL OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION**

72. Public Accounts Committee

(1) There shall be a standing committee, to be called the Public Accounts Committee, to consider reports of the Director of Audit –

- (a) on the accounts of the Government;
- (b) on such other accounts required to be laid before the Council as the committee may think fit; and
- (c) on any matter incidental to the performance of his duties or the exercise of his powers as the committee may think fit.

(2) The committee shall also consider any report of the Director of Audit laid on the Table of the Council which deals with examinations (value for money audit) carried out by the Director relating to the economy, efficiency and effectiveness of any Government department or public body or any organization to which his functions as Director of Audit extend by virtue of any Ordinance or which receives public moneys by way of subvention.

(3) The committee shall consist of a chairman, deputy chairman and 5 members who shall be Members appointed by the President in accordance with an election procedure determined by the House Committee. *(L.N. 214 of 2005)*

(3A) The chairman and 2 other members shall constitute a quorum of the committee. *(L.N. 214 of 2005)*

(3B) In the event of the temporary absence of the chairman and deputy chairman, the committee may elect a chairman to act during such absence. *(L.N. 214 of 2005)*

(3C) All matters before the committee shall be decided by a majority of the members voting. Neither the chairman nor any other member presiding shall vote, unless the votes of the other members are equally divided, in which case he shall give a casting vote. *(L.N. 214 of 2005)*

(4) A report mentioned in subrules (1) and (2) shall be deemed to have been referred by the Council to the committee when it is laid on the Table of the Council.

(5) Unless the chairman otherwise orders, members of the press and of the public shall be admitted as spectators at meetings of the committee attended by any person invited by the committee under subrule (8).

(6) The committee shall meet at the time and the place determined by the chairman. Written notice of every meeting shall be given to the members and to any person invited to attend a meeting at least 5 clear days before the day of the meeting but shorter notice may be given in any case where the chairman so directs.

(7) *(Repealed L.N. 214 of 2005)*

(8) The chairman or the committee may invite any public officer, or, in the case of a report on the accounts of or relating to a non-government body or organization, any member or employee of that body or organization, to give information or any explanation or to produce any records or documents which the committee may require in the performance of its duties; and the committee may also invite any other person to assist the committee in relation to any such information, explanation, records or documents.

(9) The committee shall make their report upon the report of the Director of Audit on the accounts of the Government within 3 months (or such longer period as may be determined under section 12 of the Audit Ordinance (Cap. 122)) of the date on which the Director's report is laid on the Table of the Council.

(10) The committee shall make their report upon the report of the Director of Audit mentioned in subrule (2) within 3 months (or such longer period as may be determined by the Council) of the date on which the Director's report is laid on the Table of the Council.

(11) Subject to these Rules of Procedure, the practice and procedure of the committee shall be determined by the committee.

**Paper presented to the Provisional Legislative Council
by the Chairman of the Public Accounts Committee
at the meeting on 11 February 1998 on
Scope of Government Audit in the
Hong Kong Special Administrative Region -
'Value for Money Audits'**

SCOPE OF WORK

1. The Director of Audit may carry out examinations into the economy, efficiency and effectiveness with which any bureau, department, agency, other public body, public office, or audited organisation has discharged its functions.
2. The term "audited organisation" shall include -
 - (i) any person, body corporate or other body whose accounts the Director of Audit is empowered under any Ordinance to audit;
 - (ii) any organisation which receives more than half its income from public moneys (this should not preclude the Director from carrying out similar examinations in any organisation which receives less than half its income from public moneys by virtue of an agreement made as a condition of subvention); and
 - (iii) any organisation the accounts and records of which the Director is authorised in writing by the Chief Executive to audit in the public interest under section 15 of the Audit Ordinance (Cap. 122).
3. This definition of scope of work shall not be construed as entitling the Director of Audit to question the merits of the policy objectives of any bureau, department, agency, other public body, public office, or audited organisation in respect of which an examination is being carried out or, subject to the following Guidelines, the methods by which such policy objectives have been sought, but he may question the economy, efficiency and effectiveness of the means used to achieve them.

GUIDELINES

4. The Director of Audit should have great freedom in presenting his reports to the Legislative Council. He may draw attention to any circumstance which comes to his knowledge in the course of audit, and point out its financial implications. Subject to these Guidelines, he will not comment on policy decisions of the Executive Council and the Legislative Council, save from the point of view of their effect on the public purse.

5. In the event that the Director of Audit, during the course of carrying out an examination into the implementation of policy objectives, reasonably believes that at the time policy objectives were set and decisions made there may have been a lack of sufficient, relevant and reliable financial and other data available upon which to set such policy objectives or to make such decisions, and that critical underlying assumptions may not have been made explicit, he may carry out an investigation as to whether that belief is well founded. If it appears to be so, he should bring the matter to the attention of the Legislative Council with a view to further inquiry by the Public Accounts Committee. As such an investigation may involve consideration of the methods by which policy objectives have been sought, the Director should, in his report to the Legislative Council on the matter in question, not make any judgement on the issue, but rather present facts upon which the Public Accounts Committee may make inquiry.

6. The Director of Audit may also -

- (i) consider as to whether policy objectives have been determined, and policy decisions taken, with appropriate authority;
- (ii) consider whether there are satisfactory arrangements for considering alternative options in the implementation of policy, including the identification, selection and evaluation of such options;
- (iii) consider as to whether established policy aims and objectives have been clearly set out; whether subsequent decisions on the implementation of policy are consistent with the approved aims and objectives, and have been taken with proper authority at the appropriate level; and whether the resultant instructions to staff accord with the approved policy aims and decisions and are clearly understood by those concerned;

- (iv) consider as to whether there is conflict or potential conflict between different policy aims or objectives, or between the means chosen to implement them;
- (v) consider how far, and how effectively, policy aims and objectives have been translated into operational targets and measures of performance and whether the costs of alternative levels of service and other relevant factors have been considered, and are reviewed as costs change; and
- (vi) be entitled to exercise the powers given to him under section 9 of the Audit Ordinance (Cap. 122).

PROCEDURES

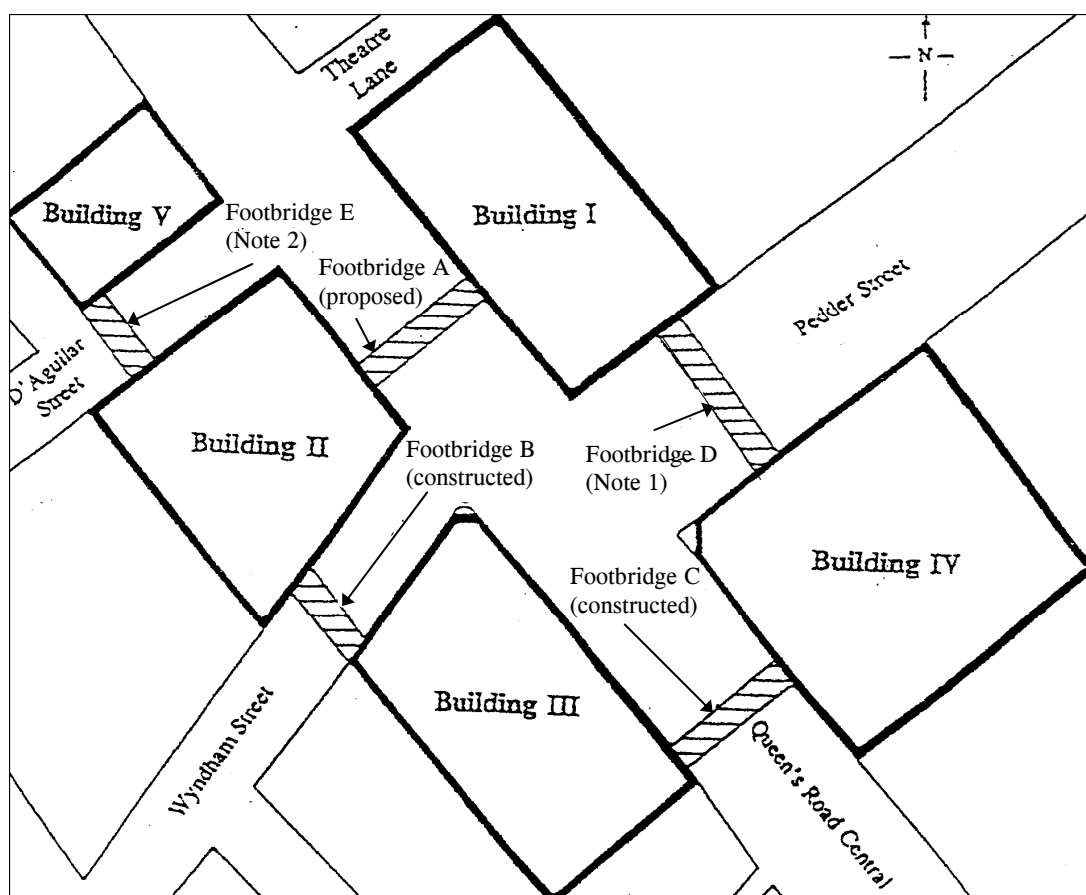
7. The Director of Audit shall report his findings on value for money audits in the Legislative Council twice each year. The first report shall be submitted to the President of the Legislative Council within seven months of the end of the financial year, or such longer period as the Chief Executive may determine. Within one month, or such longer period as the President may determine, copies shall be laid before the Legislative Council. The second report shall be submitted to the President of the Legislative Council by the 7th of April each year, or such date as the Chief Executive may determine. By the 30th April, or such date as the President may determine, copies shall be laid before the Legislative Council.

8. The Director's report shall be referred to the Public Accounts Committee for consideration when it is laid on the table of the Legislative Council. The Public Accounts Committee shall follow the rules governing the procedures of the Legislative Council in considering the Director's reports.

9. A Government minute commenting on the action Government proposes to take in respect of the Public Accounts Committee's report shall be laid on the table of the Legislative Council within three months of the laying of the report of the Committee to which it relates.

10. In this paper, reference to the Legislative Council shall, during the existence of the Provisional Legislative Council, be construed as the Provisional Legislative Council.

**Location of the five commercial buildings
and the five footbridges in the Central District**



Source: Planning Department records

Note 1: *The construction of Footbridge D will be dealt with when a redevelopment proposal for Building IV is received.*

Note 2: *With reference to Footbridge E, it is pertinent to note that the lease of Building V is an unrestricted lease. The requirement for footbridge connections cannot be incorporated into the lease conditions.*

本署檔案
 OUR REF : () in EP1014/P3/11
 來函檔案
 YOUR REF : CB4/PAC/CS(62,63&63A)
 電話
 TEL NO : 2516 1800
 圖文傳真
 FAX NO : 2880 5141
 網址
 HOMEPAGE : <http://www.epd.gov.hk/>
 Email:

Environmental Protection Department
Environmental Compliance Division
Regional Office (South)
 2th floor, Chinachem Exchange Square,
 1 Hoi Wan Street, Quarry Bay, Hong Kong



環境保護署
環保法規管理科
區域辦事處(南)
 香港鰂魚涌
 海灣街1號
 華懋交易廣場2樓

(by fax: 2543 9197)

1 February 2016

The Public Accounts Committee
 Legislative Council Secretariat
 Legislative Council Complex
 1 Legislative Council Road
 Central
 Hong Kong

(Attn.: Mr. Anthony CHU)

Dear Mr. CHU,

Follow-up to Public Accounts Committee Report No. 61
Management of Roadside Skips

I refer to the letter from the Public Accounts Committee to the Chief Secretary for Administration dated 8 January 2016. I am authorized to give the reply on her behalf.

The Administration attaches great importance in tackling the problems caused by roadside skips, and has set up a Joint Working Group (JWG) led by the Environment Bureau and the Environmental Protection Department (EPD) to actively investigate ways to enhance and co-ordinate the work of relevant Government Bureaux and Departments in managing roadside skips. The JWG comprises the Transport and Housing Bureau, the Development Bureau, the Food and Environmental Hygiene Department, the Home Affairs Department¹, the Hong Kong Police Force (HKPF), the Highways Department, the Lands Department (LandsD) and the Transport Department.

The review conducted by the JWG found that the main reason of placement of skips at roadside locations under complaint was due to a lack of proper storage locations, in particular during the night time. The skip operators placed their idling skips on the roadside for convenience. As the root of the problem is due to a lack of proper storage locations for idling skips, relying solely on enforcement of relevant laws would not be able to resolve the problem. To tackle the issue, and in order to reduce the number of skips placed in public areas, our priority is to provide proper storage areas for placing skips, to be backed up by speedy removal of roadside skips that caused obstruction to traffic so as to further deter malpractices of the skip operators. We believe that these two measures, which can be implemented in a relatively shorter time, should effectively alleviate the problems caused by roadside skips.

¹ To attend on a need basis.

Below are replies to the specific questions in your letter, after consulting the relevant Government Bureaux and Departments:

(a) Latest enforcement actions of the HKPF and the LandsD

The HKPF and the LandsD have been taking proactive enforcement actions on roadside skips. The HKPF received 1,230 and 1,208 complaints about roadside skips in 2015 and 2014, respectively. Among the complaint cases received by the HKPF, the number of cases with skips identified by the police officers at the scene was 1,030 cases for 2015 and 1,046 cases for 2014. Advice and/or warning were given by the HKPF under the Summary Offences Ordinance (Cap. 228), such that about 80% of the skip(s) were removed by the skip operators themselves within a few hours after issuance of the advice/warnings. The number of skips removed by the HKPF's contractor was 4 in 2015 and 5 in 2014. The number of summons for prosecution issued by the HKPF was 10 in 2015 and 13 in 2014.

The LandsD received 858 and 1,164 complaints about roadside skips in 2015 and 2014, respectively. For about 99% of these cases, the skips were removed by the skip operators usually within two days after posting of notices by the LandsD under the Land (Miscellaneous Provisions) Ordinance (Cap. 28). The number of skips removed by the LandsD's contractor was 8 in 2015 and 14 in 2014. The LandsD had successfully prosecuted a case involving roadside skip, and the defendant was fined \$1,500 by the court.

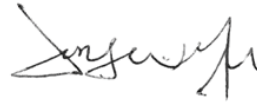
(b) and (c) The strategies and action plans for regulating and facilitating skip operations

As mentioned above, the two measures which can be implemented in a relatively shorter time, namely to provide proper storage areas for placing skips to be backed up by speedy removal of roadside skips that caused obstruction to traffic, should effectively alleviate the problems caused by roadside skips.

In the annual progress report submitted to PAC in November 2015, the JWG proposed to, in order to address the issue of lack of proper storage area for skips, make available to skip operators through tendering short-term tenancies (STT) sites for storage of skips. We have already identified two pieces of land for the purpose, and are working on the terms and conditions for leasing the STTs. We will shortly consult the relevant District Councils of the two identified sites. Depending on the outcome of the consultation, we plan to tender out the STTs in the second quarter of 2016 so that the trade would have suitable locations for placement of skips within 2016. Besides, in order to enhance enforcement efficiency, we have prepared the terms and conditions for a service contract with a view to engage a service provider to support the enforcement departments in speedy removal of skips. This contract service will be commissioned in parallel with the provision of the STT sites for placement of skips so as to increase the deterrent against malpractices.

The JWG will firstly implement the short-term measures above, and having regard to the effectiveness of the short-term measures, consider if there is a need to introduce further measures, such as formulating a regulatory system for skips.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Joe Fong', with a stylized flourish at the end.

(Joe Fong)
for Director of Environmental Protection

c.c. The Chief Secretary for Administration (fax no. 2524 5695)
Secretary for the Environment (fax no. 2537 7278)
Secretary for Transport and Housing (fax no. 2537 6519)
Secretary for Development (fax no. 2845 3489)
Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Lands (fax no. 2152 0450)
Commissioner of Police (fax no. 2520 1210)
Director of Audit (fax no. 2583 9063)

政府總部
運輸及房屋局
運輸科
香港添馬添美道 2 號
政府總部東翼



Transport and
Housing Bureau
Government Secretariat
Transport Branch
East Wing, Central Government
Offices,
2 Tim Mei Avenue,
Tamar, Hong Kong

本局檔號 Our THB(T)CR 2/2172/08
Ref.:
來函檔號 Your CB4/PAC/CS(62,63&63A)
Ref.:

電話 (852) 3509 8195
Tel :
傳真 (852) 2524 9397
Fax :

22 January 2016

Mr Anthony CHU
Clerk to the Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr CHU,

Follow-up to Public Accounts Committee Reports No. 63 and No. 63A

New Civil Aviation Department Headquarters and Administration of the Air Traffic Control and Related Services

Thank you for your two letters dated 8 January 2016 and 13 January 2016 respectively to the Secretary for Transport and Housing. I am authorised to reply on the Secretary's behalf.

Progress of Investigation

As announced by the Secretary for Transport and Housing on 9 December 2014, the Government has initiated investigation into the irregularities on the implementation of the new Civil Aviation Department (CAD) Headquarters project to establish whether if there is any room for procedural improvements apart from those recommended in the audit report.

An officer at Deputy Secretary level in the Transport and Housing Bureau (THB) has been appointed as the Investigation Officer for the investigation. The investigation involves review of internal documents and external communication records covering different stages of the project. These include records, emails and meeting notes about facilities budgeting and planning, contractor engagement, monitoring of progress, change of schedule/facilities requirement, etc. The investigation is being conducted in a thorough manner, looking into a range of concerns from different perspectives. Based on the outcome of the investigation, the Government will take necessary follow-up actions, including appropriate administrative or disciplinary action, in accordance with civil service established procedures. We will report progress as and when appropriate.

Progress of the New Air Traffic Management System Project

The new Air Traffic Management System (ATMS) must meet the stringent requirements on safety and performance, and there will be no compromise on these requirements under any circumstances, as emphasized by the Government on various occasions. CAD will ensure the safety, reliability and stability of the new ATMS before putting it into operation. CAD has been closely monitoring the contractor of the new ATMS to ensure that the implementation of the new system is executed in accordance with international aviation safety management standards and established Government procedures, as well as in compliance with CAD's requirements.

To this end, CAD has appointed an independent consultant to provide safety assessment of the ATMS to ensure that the contractor follows international quality standards in the process of system development. In parallel, THB also appointed its own independent consultant in November 2015 to advise the Secretary for Transport and Housing on the system readiness and staff readiness of the new system directly and independently.

As at 22 January 2016, 13 priority items, such as optimisation of the flight datablock display, fine-tuning of the flight level monitoring, require follow up. CAD is working with its contractors to resolve these issues. It is expected that the priority items will be fully addressed by March 2016. As for non-priority items, which include changing the intensity control of map lines, modifying supervisor window layout, etc. they do not affect the safe commissioning of the ATMS; CAD is working with the contractor to address these items in due course.

The phenomenon mentioned in your letter dated 13 January 2016 concerns the update rate of displayed aircraft positions on the radar screen. According to the guidelines issued in 2012 by the International Civil Aviation Organization (ICAO) and the European Organisation for the Safety of Air Navigation (EUROCONTROL), the position of an aircraft in the vicinity of the airport displayed on the radar screen should be updated at an interval of not more than 5 seconds, so as to allow the air traffic controller to timely acquire the latest aircraft position. In accordance with such guidelines, and with reference to the major ATC centres overseas (including Singapore, Australia and Thailand) which adopt update rates of 4 or 5 seconds, as well as having regard to CAD's operational needs, CAD has adopted an update rate of 4 seconds for the new ATMS. Further, in order to cater for all possible operational scenarios, the ATMS has been designed in such a way that the update rate can be adjusted through system database adaptation. CAD will regularly review and make suitable adjustments as and when necessary in line with international requirements and good practice.

Meanwhile, CAD is organizing intensive training sessions for Air Traffic Controllers and relevant staff to help them acquire the necessary competency and build up confidence to master the new ATMS. CAD is providing shadowing tests/operational trials whereby participants are able to mimic air traffic handling using the new ATMS. At the next stage scheduled in the second quarter of 2016, participants will be further allowed to operate the new ATMS to handle air traffic in a progressive and controlled manner, by conducting actual handling of real live air traffic using the new ATMS, to be supported by the existing ATC Centre.

To ensure that both the ATMS and staff are fully capable of the switch-over in mid-2016, both CAD and THB have each appointed their own independent consultants to assess the system readiness and human factor effectiveness, to provide an extra check point to ensure the successful launching of the new ATMS, with air traffic safety being the paramount concern.

According to current progress and subject to further review on system and staff readiness, CAD advises that the target to put the new ATMS into operational use remains mid-2016.

Claims from ATMS Contractors

So far, no claims from the ATMS contractor regarding the system have been received. At the same time, CAD has approached the Government Logistics Department and the Department of Justice for advice on pursuing

claims against the ATMS contractor on project delay so as to protect the Government's best interest. CAD is following up with the ATMS contractor accordingly.

Yours sincerely,



(Miss Monica CHEN)

for Secretary for Transport and Housing

c.c. Director-General of Civil Aviation
Secretary for Financial Services and the Treasury
Director of Audit

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

Mr Gregory SO Kam-leung	Secretary for Commerce and Economic Development
Mr Philip YUNG Wai-hung	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)
Mrs Alice CHEUNG CHIU Hoi-yue	Deputy Secretary for Commerce and Economic Development (Commerce and Industry) ³
Mrs Jessie TING YIP Yin-mei	Postmaster General
Miss Amy NG Mei-har	Assistant Postmaster General (Corporate Development)
Ms Teresa AU Wai-yin	Assistant Postmaster General (Postal)
Mr Leo YAN Kwok-yuen	Director (Operations) Hongkong Post
Mr Lorrience CHOW Kim-wa	Director (Finance) Hongkong Post
Ms Christine LOH Kung-wai	Acting Secretary for the Environment
Ms Anissa WONG Sean-yee	Permanent Secretary for the Environment /Director of Environmental Protection
Mr Howard CHAN Wai-kee	Deputy Director of Environmental Protection ⁽²⁾
Mr Samson LAI Yiu-kei	Assistant Director (Waste Management Policy) Environmental Protection Department
Mr WONG Hon-meng	Assistant Director (Waste Reduction & Recycling) Environmental Protection Department
Ms Betty CHEUNG Miu-han	Assistant Director (Environmental Infrastructure) Environmental Protection Department

Mr CHEN Che-kong	Principal Environmental Protection Officer (Waste Transfer & Development) Environmental Protection Department
Mr George NG Wai-wah	Senior Statistician Environmental Protection Department
Mr WONG Wai-yuen	Senior Environmental Protection Officer (Waste Reduction & Recycling) ³ Environmental Protection Department
Mr Roy TANG Yun-kwong	Commissioner of Customs and Excise
Mr Leslie TANG Wai-kong	Commissioner for Census and Statistics
Ms Anmy CHEUNG Kit-man	Senior Statistician (Trade) ¹ Census and Statistics Department
Mr WONG Kam-sing	Secretary for the Environment
Mr Elvis AU Wai-kwong	Assistant Director (Nature Conservation and Infrastructure Planning) Environmental Protection Department
Mr Lawrence LAU Ming-ching	Principal Environmental Protection Officer (Food Waste Management) Environmental Protection Department
Mr Steven WONG Hung-lok	Senior Environmental Protection Officer (Waste Reduction and Recycling) ² Environmental Protection Department
Dr Ellen CHAN Ying-lung	Community Relations Manager Environmental Protection Department
Mr Kevin YEUNG Yun-hung	Under Secretary for Education
Mrs HONG CHAN Tsui-wah	Deputy Secretary for Education (4)
Dr LEUNG Pak-yin	Chief Executive, Hospital Authority
Mr Antony LUI	Senior Manager (Business Support Services) ² Hospital Authority
Mr YAU Chi-chiu	Commissioner of Correctional Services

Miss Dora FU Ha-man	Civil Secretary Correctional Services Department
Mr Stanley YING Yiu-hong	Director of Housing
Ms Rosman WAI Chui-chi	Senior Manager/Environmental Management Housing Department
Mr Eddie NG Hak-kim	Secretary for Education
Mrs Marion LAI CHAN Chi-kuen	Permanent Secretary for Education
Ms Jessie WONG Hok-ling	Deputy Secretary for Education (2)
Miss Shirley YU Hee-wah	Assistant Secretary (Infrastructure)2 Education Bureau
Ms Bernadette LINN Hon-ho	Director of Lands
Ms Rita LAI	Assistant Director/Headquarters Lands Department
Miss Rosaline WONG Lai-ping	Assistant Director (Estate Management) 2 Housing Department
Ms Portia YIU Kuk-hung	Chief Planning Officer/2 Housing Department
Mr James CHAN Chuen-yin	Acting Assistant Director (Waste Reduction and Recycling) Environmental Protection Department
Mr YU Wang-pong	Principal Environmental Protection Officer (Strategic Facilities Development and Planning) Environmental Protection Department
Mr Stanley LAU Chi-fai	Acting Principal Environmental Protection Officer (Food Waste Management) Environmental Protection Department
Mr Derek LEE Siu-tak	Chief Executive Officer (Community Relations)2 Environmental Protection Department
Miss Vivian LAU Lee-kwan	Director of Food and Environmental Hygiene
Mr LAM Wing-hong	Assistant Director (Operations)2 Food and Environmental Hygiene Department

**Public Accounts Committee Public Hearing on
the Director of Audit's Report No. 65
Chapter 1: Government's efforts in managing municipal solid waste**

Opening Remarks by the Acting Secretary for the Environment

Chairman,

Introduction

1. The Government has been mobilising community efforts to adopt the principle of “reduce, reuse and recycle”. The major relevant policy documents are the *Policy Framework for the Management of Municipal Solid Waste (2005-2014)* (“the Framework”) and the targets and actions plans updated therein in January 2011; and the *Hong Kong Blueprint for Sustainable Use of Resources (2013-2022)* (“the Blueprint”). Every target or strategy is of an on-going nature, and the action plans involved are all practicable. What I mean by “practicable” is that they are implementable. When formulating our policies, stakeholders and the public were engaged; and their collaboration and support obtained. The implementation progress of these policies is also reported to the Legislative Council (LegCo) on a regular basis.
2. A key point I must emphasize at the outset is that reducing the per-capita-per-day MSW disposal) is the key objective of this Administration's Blueprint. There are many areas in our Blueprint that are a continuation from the Framework published in 2005, but there are also areas of departure. A major point of departure is the adoption of a single target to reduce per-capita-per day MSW disposal because this is the most pertinent objective.
3. If we were to use the per-capita-per-day perspective and look at how Hong Kong has done since 2005, the per-capita-per-day MSW disposal in 2014 is 1.35 kilograms, showing a slight decrease as compared to 1.38 kilograms in 2005.
4. I will now elaborate on the key points raised in the Audit Report. My colleagues and I will then respond to Members' question.

Reduction in MSW

Methodology Used for Estimation

5. I would like to address the method for estimating the MSW recovery rate. A key point is that there are constraints in collecting relevant data. In particular, estimation of the quantity of local recovery depends very much on the provision of sufficient and accurate data by the trades concerned. When calculating the local recovery rate, we mainly make use of the trade statistics on domestic-export recyclables to estimate the quantity of local recovery. This is also one of the methodologies adopted worldwide.
6. As pointed out in the Audit Report, the MSW recovery rate increased from 43% in 2005 to 52% in 2010, but then dropped significantly to 37% in 2013. In fact, we noticed in 2012 major fluctuations in the domestic-export statistics on recyclable plastics. We took the initiative to commission an independent consultant in late 2012 to undertake a study to look into this. The study concluded that the current methodology used is the most appropriate approach for Hong Kong as a free trading port. In response to the consultant's recommendations, the EPD, the Census and Statistics Department (C&SD) and the Customs and Excise Department (C&ED) have taken improvement measures. These include stepping up efforts in explaining the definition of domestic-export recyclables to the trades concerned, and introducing a checking mechanism to verify the information declared. We briefed the Panel of Environmental Affairs of the LegCo on 26 July 2013 and 24 March 2014 on this matter. These improvement measures will be on-going. In paragraph 2.22 of its report, the Audit Commission also recognises our efforts in this regard.
7. Furthermore, I must emphasise that in line with the import/export controls over waste as imposed by other international cities, Hong Kong has strict laws prohibiting local disposal of imported waste. The EPD joins the C&ED in conducting random inspection of imported goods, including recyclables. Over the past three years, about 2,000 containers of various recyclables were inspected. All were found to be commodities with commercial value that could be transformed into raw materials, and no household garbage or contaminated recyclable plastics was found. In addition, we have put in place stringent control at landfills to prevent illegal

disposal of imported waste. Imported recyclable plastics are not being disposed of at landfills.

8. I would like to emphasize that, although there were problems found in the estimation of MSW recovery rate after we published the Blueprint in May 2013, that has not undermined our goal to strive for reducing Hong Kong's per-capita MSW disposal rate. We are working hard to implement all the action plans to achieve the target we set.

Producer Responsibility Schemes (PRS) and Quantity-based MSW Charging

9. Let me now deal with Producer Responsibility Schemes and MSW Charging. We share the concern raised in the Audit Report about the implementation progress of the PRS and MSW charging scheme. The Audit Report sets out the reasons for the longer-than-expected time required, particularly the fact that each scheme has to go through comprehensive public consultation and stringent legislative vetting procedures. For the current Administration, we have so far submitted three pieces of PR legislation to the LegCo, and the plastic shopping bag charging scheme is already in force. As regards waste electrical and electronic equipment treatment and the recycling facility, funding approval has been obtained and the facility is under construction. As for MSW charging, the Council for Sustainable Development has completed the public engagement process, and has made specific recommendations on its implementation. The EPD has set up an inter-departmental working group to prepare the legislative proposal for scrutiny by the LegCo in the 2016-17 session. Getting the draft legislation ready is one of the top priorities of the EPD.
10. Regarding the review of effectiveness, the Audit Commission considers that we should be more comprehensive in reporting the impact of the PRS on plastic shopping bags. We agree with this direction and will strive to do better. However, we note that this part of the Audit Report has been misconstrued by some as implying that the Government has overstated the effectiveness of the plastic shopping bag PRS. This is incorrect. In fact, paragraph 2.46 of the Audit Report has affirmed the effectiveness of Phase 1. As regards the discrepancies between the figures from the survey on the disposal of plastic shopping bags and the number of plastic shopping

bags distributed by registered retail outlets, they simply reflect the differences in the comparability of the figures collected through different channels. We have all along been assessing, through multiple perspectives, the effectiveness of the various measures, and we will continue to consider improving the statistical methodologies as proposed in the Audit Report.

Recovery of MSW

11. As regards the Audit recommendations on the improvement of the Programme on Source Separation of Waste, we have already enhanced our communication with participating housing estates and reminded them to submit recovery statistics. We have also suggested to the housing estates to let residents know their achievement in waste recovery. We will continue to support them.
12. The Audit Commission has recommended that the Government should consider providing appropriate assistance through the Recycling Fund to promote the sustainable development of the recycling industry of waste plastics. We agree and will facilitate the trade in putting forward their applications as soon as possible.

Recycling of MSW

Development of the EcoPark

13. The development of the EcoPark is one of the Government's key measures to support the local environmental industry. Since 2012, ten tenants at EcoPark have successively commenced operation. Two tenants are taking forward the planning and construction of their plants, while another has finished construction and machine installation and is ready for trial runs. We will implement the Audit recommendations through enhanced management of tenants. If difficulties are encountered by a tenant, we will see how to give assistance. If the tenant is found to have breached the terms of the tenancy, the EPD will issue warnings and will also consider taking appropriate legal actions, including the termination of the tenancy where necessary.

Treatment and disposal of MSW

Estimation on Time for Landfills Reaching Design Capacity

14. The Audit Report gives an account on the various assumptions that can be adopted in estimating the serviceable lives of landfills. This, however, has been misconstrued by some as implying that the Government's estimation is incorrect and that the Government sought to mislead the LegCo. The Government has explained in detail to the Audit Commission the assumptions adopted in estimating the serviceable lives of landfills. The methodology we use is set out in paragraphs 5.16 to 5.19 of the Audit Report. The Audit Commission has accepted our explanation. I wish to emphasize that we did not mislead the LegCo and did not seek to mislead the LegCo.
15. In fact, the LegCo did discuss in detail the estimated serviceable lives of landfills when scrutinising funding applications in 2014, and Members were provided with the information they requested, including those on the assumptions adopted in the estimation. When estimating the time for landfills reaching design capacity, the Government will take account of factors such as historical trends of waste disposal and projections of population growth. That said, the EPD will take on board Audit recommendation that when submitting future funding applications we should make every effort to provide the LegCo with the basic assumptions and quantifiable information used in estimating the remaining serviceable lives of landfills.

Long-term Planning Study on Waste Disposal Infrastructure

16. I think both the public and Members of this Council understand that despite the progressive implementation of various measures on reduction at source, reuse and recycling, there will still be a considerable amount of residual waste that needs to be disposed of at landfills. Population rise and economic development may also increase the amount of waste. The existing and planned waste management facilities may not be sufficient to cope with them. We have commenced a long-term planning study on waste disposal infrastructure this September. Based on the concepts of achieving a circular economy and building a smart city, the study will

identify the additional strategic and regional facilities required in Hong Kong for bulk transfer and disposal of MSW, with a view to reducing our reliance on landfills and achieving sustainable development in the long run.

Conclusion

17. Chairman, the Government will continue to actively take forward the measures set out in the Blueprint, and will strengthen our efforts to clearly publicise the significant landfill problem. While we are fully aware of our citizens' aspirations for a quality environment, we have to drive behavioural changes within our community to reduce waste at source and enhance participation in waste recovery. We will endeavour to formulate waste management policies from new perspectives, and will collaborate with this Council and every sector in society to ensure their smooth implementation, with a view to building a better living environment.
18. Thank you, Chairman.

Reply to PAC further questions on MSW

Reduction in municipal solid waste

- (a) According to paragraph 2.8 (b) of the Audit Report, the Environmental Protection Department (‘EPD’) conducted annual waste recovery surveys to obtain the related statistics for locally-generated recyclables recovered for local use. Please explain how these surveys are conducted, and the Administration’s views on the accuracy and reliability of the data gathered by using these surveys in estimating the quantities of locally-generated municipal solid waste (‘MSW’) recovered for local use;**

Reply:

The Government is committed to tackling our waste challenges through multiple and concurrent actions. The actions aim to encourage and facilitate prevention, reduction and recycling of waste, with a view to alleviating the burden of pressure on our landfills. We have been studying the results of surveys conducted for various purposes to objectively review effectiveness of our work. These results are also published timely for public view.

2. For quantity of waste disposal, we obtain the relevant statistics compiled based on weighbridge data recorded at entrances of waste treatment facilities, supplemented by data obtained from the Waste Composition Survey on the composition of waste disposed of at landfills by waste type.

3. For quantity of waste recovered, there is no environmental legislation at present mandating the recording and declaration of the quantities of general recyclables collected and processed by the recycling businesses. Therefore, we compile the statistics based on domestic exports statistics of recyclables which measures the quantities of locally-generated recyclables exported for recycling outside Hong Kong. These statistics are supplemented by data obtained from the Waste Recovery Survey (WRS) which measures the quantities of locally-generated wastes recycled locally into recycled products^{1 & 2}. There is no overlapping in these two sets of data.

¹ For example, waste plastic water bottles can be recycled in Hong Kong to become plastic pellets. These pellets (recycled products) can be used by the local manufacturing sector, or exported under product but not recyclable categories for use outside Hong Kong.

² The Audit Report has referred to these quantities as “locally-generated recyclables recovered for local use”. This is different from the terminology adopted by EPD. In fact,

4. The EPD commissions a survey contractor every year to conduct the annual WRS. The major operation features of the WRS are highlighted as follows:

- (a) The WRS questionnaire is designed in a way to ensure that the quantities of locally-generated recyclables recycled locally into final recycled products can be accurately captured.
- (b) Prior to data collection, frontline field interviewers receive appropriate training in the presence of the EPD.
- (c) The WRS contractor performs telephone/face-to-face interviews using a well-structured questionnaire to obtain the required recovery data from companies in the recycling industry. Each interview takes about 30 minutes.
- (d) In completing the survey, about 1 500 companies are interviewed. These companies are from the full listing of companies in the local recycling industry updated annually based on the latest Central Register of Establishments maintained by the Census and Statistics Department. The listing is supplemented by the Directory of local Waste Collectors and Recyclers maintained by the EPD. All companies and green groups identified in the survey frame are fully enumerated under the WRS.
- (e) In recent years, the WRS achieved response rates ranged from 75 to 77 per cent, which are statistically acceptable considering that the WRS is a voluntary survey.

5. The accuracy and reliability of the waste statistics related to waste disposal is beyond doubt as they are based on factual weighbridge data recorded at entrances of waste treatment facilities.

6. The accuracy of the quantities of waste recovery mainly depends on the accuracy of the declared domestic exports statistics of recyclables, as most of the locally-generated recyclables are exported for recycling, with only a small portion of them being recycled locally into final recycled products. For instance, for years 2013 and 2014, the proportion of locally-generated recyclables exported for recycling were 93% and 98% respectively of the total quantity of waste recovery. In this connection, the EPD has taken measures jointly with the Customs and the Census and Statistics Department to improve the accuracy of the data collected from export declarants. The measures implemented since April 2014 include preparing additional guidelines and training workshops to help recyclers and export trade declarants to better

the terminology used by Audit may not be able to reflect the actual recycling scene completely since it is possible that locally-generated recyclables locally recycled into products may also be exported after recycling under product categories.

understand the declaration requirements (in particular regarding the definition of 'domestic export' and 're-export' applicable to recyclable materials), strengthening checking of export declarations and collecting additional data from export trade declarants on the source of recyclable plastics declared as domestic export on a sample basis.

7. As for the WRS, the data accuracy very much depends on the provision of sufficient and accurate data by the recyclers concerned. The EPD has no statutory authority to verify the reported data with supporting business documents. Notwithstanding this, the EPD conducts verification checks with the responding companies by selecting a random sample of the survey returns submitted by the survey contractor, which is an important quality control measure. In light of above, we have reasons to be confident on the accuracy and reliability of the WRS to be at least as good as that of other surveys professionally conducted on voluntary basis.

(b) With reference to paragraph 2.12 and Table 2 of the Audit Report –

- (i) Please explain why the aggregates of the quantities of ‘import recyclables’ plus ‘local recyclables recovered for export’ significantly exceeded the quantities of export recyclables in 2009 - 2011 and the action taken, if any, to ascertain the reasons to account for this significant discrepancy;**
- (ii) the Administration’s views, with the support of statistical data where appropriate, on the possibility that a vast quantity of import recyclables have been disposal of at the local landfills in 2009-2011; and**

Reply:

Based on our analysis of the relevant data and with reference to Consultant study commissioned in late 2012 on Comprehensive Review on Estimation of Waste Recovery Rate (the Consultant Study) , we assess the “excess” of “the aggregates of the quantities of ‘import recyclables plus local recyclables recovered for export’” against the “quantities of export recyclables” in 2009–2011 can basically be attributed to the amount of “re-export recyclables” wrongly declared as “domestic-exports of recyclables” by export declarants. Details about the Consultant Study are set out in paragraph 2.16 in the Audit Report.

2. We would like to illustrate our assessment with the following scenario making use of the formula adopted by Audit in Table 2 of the Audit Report:

- (a) = Import recyclables
- (b) = Locally-generated recyclables recovered for export
- (c) = Import plus local recyclables = (a)+(b)
- (d) = Export recyclables
- (e) = Import plus local less export recyclables = (c)-(d) or [(a)+(b)]-(d)

- For years 2009–2011, if significant quantities of ‘re-exports of recyclables’ were erroneously declared and recorded as ‘domestic-exports of recyclables (mis-reporting of trade declarations), column (b) would be significantly over-estimated as a result, since it is compiled mainly based on domestic exports figures. The larger the mis-reporting of trade declarations the larger would be column (b) and also column (e).

- In other words, such mis-reporting of trade declarations would inflate the total quantities of recyclables available and expected to be exported ((a)+(b)), and these total quantities would exceed that of recyclables actually exported (d) **to the extent of such mis-reporting**.
- By way of illustration, if we assume that **all** of the discrepancy in column (e) were caused by mis-reporting of ‘re-export recyclables’ as ‘domestic-exports of recyclables’ and hence being included in ‘locally-generated recyclables recovered for export’ in column (b) from 2009 to 2011, then the possible corrected figures (in square bracket) after adjusting for the mis-reported figures could be shown in the following table.

<i>(Unit: million tonnes)</i>						
Year	Import Recyclables (Actual)	Locally- generated recyclables recovered for export (Adjusted)	Re-export Recyclables misreported as Domestic Export Recyclables	Re-export Recyclables (Actual)	Export recyclables (Adjusted)	Import plus locally- generated recyclables recovered for export (Adjusted)
=	(i)	(ii)	(iii)	(iv)	(v)=(ii)+ (iii)+(iv)	(vi)=(i)+(ii)
2009	5.60	[1.12]	[2.03]	3.49	6.64	6.72
2010	5.72	[1.15]	[2.42]	3.14	6.71	6.87
2011	4.83	[1.42]	[1.56]	3.12	6.10	6.25

Note: Column (iii) shows the quantities of re-exports mis-reported as domestic exports under our assumption. Column (iv) shows the quantities of re-exports reported in trade statistics. Hence the total quantities of re-exports adjusted for mis-reporting will be columns (iii)+(iv). Our assumption implied that about 30 to 40 % of re-exports, i.e. ((iii)/(iii)+(iv)), were mis-reported in the three years.

- The above table assumes that **all** of the shortfall at (e) of Audit’s Table 2 was caused by such mis-reporting. We must emphasize that in reality, there is no practical means to accurately ascertain the extent of mis-reporting of “re-export recyclables” as “locally-generated recyclables recovered for export” by trade declarants.

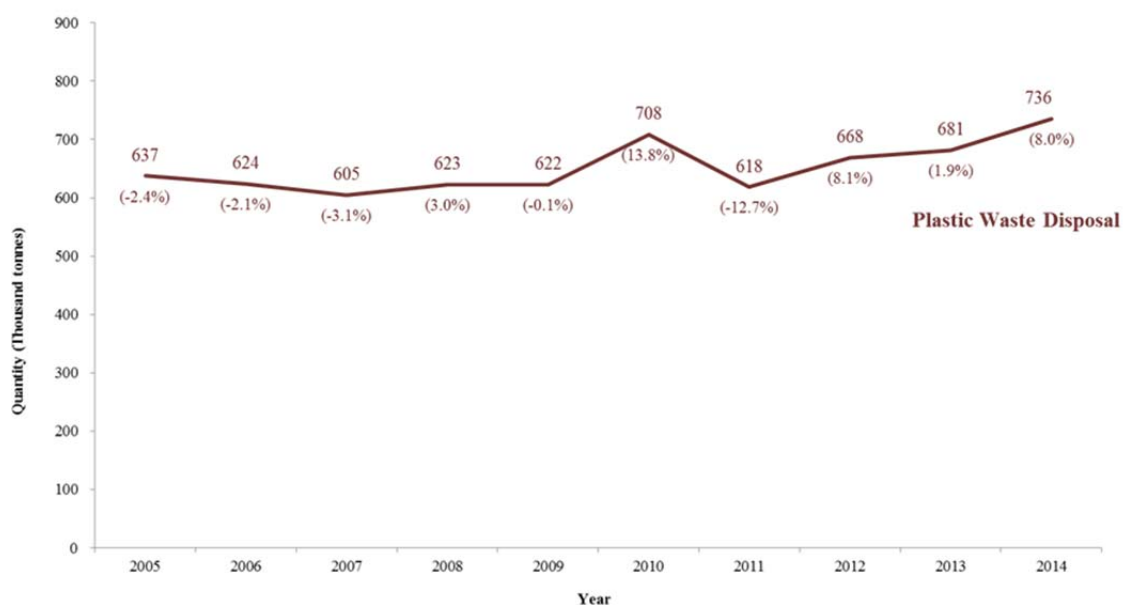
- In the above table, if we add the ‘correctly’ reported ‘locally-generated recyclables recovered for export’ at column (ii), together with the correctly reported ‘re-export recyclables’ (column (iii)+(iv)), then **the adjusted total export recyclables (column (v)) would have closely matched the adjusted ‘Import plus locally-generated recyclables recovered for exports (column (vi))’ in the corresponding years.**
- This illustrates that if the trade declarations were correctly made, **the quantities of ‘import recyclables, column (i)’ would all have been accounted for under the adjusted quantities of ‘export recyclables, column (v)’**, and there would be no question that the aggregates of the quantities of ‘import recyclables’ plus ‘local recyclables recovered for export’ (column (vi)) significantly exceeded the quantities of ‘export recyclables (column (v))’.
- We should emphasize again that there is no practical means to ascertain the exact extent of mis-reporting of re-exports as domestic exports during the three years. Moreover, it is not possible to re-verify the past export declarations with the trade declarants to ascertain the exact extent.

3. It is relevant to note that our assumptions (i.e. 30 to 40 per cent of re-exports were mis-reported³) are conservative in light of the findings of the Consultant Study that a majority of recyclers and traders were actually confused and could not tell the difference between re-exports of recyclables and domestic exports. Another relevant supporting information is the waste disposal statistics in the years of 2009-2011, which is rather stable with minor changes when compared with that in earlier or later years.

4. Amongst the different types of imported recyclables, plastic recyclables constituted the major proportion (about 80% – 84%) in recent years. Despite the rise in the quantities of declared imported recyclables particularly those of plastics recyclables in the range of 4.0 to 4.8 million tonnes in 2009-2011, the annual disposal quantity of waste plastics at landfills had remained relatively stable in the range of 0.6 – 0.7 million tonnes. Disposal quantities at landfills are set out in the chart below.

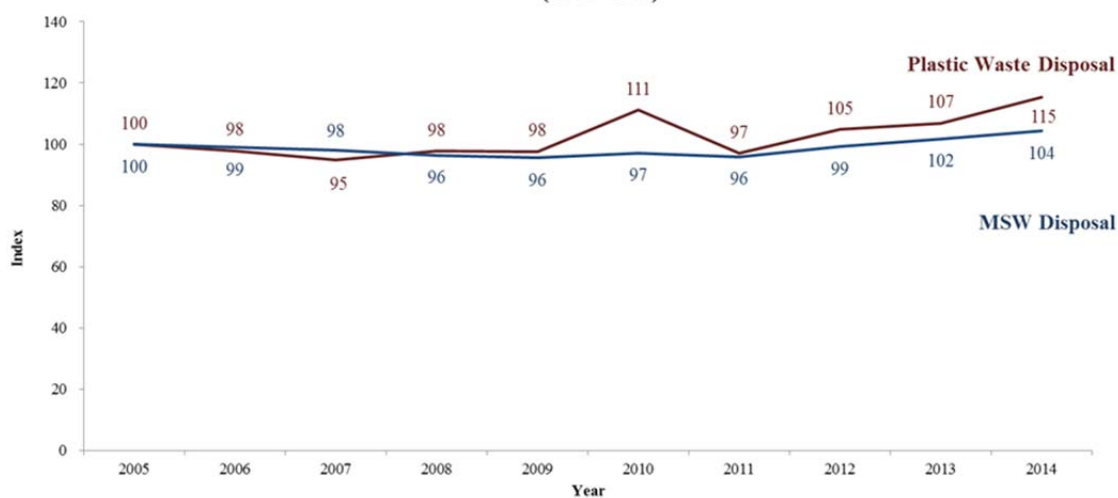
³ If we divide mis-reported re-exports (iii) by rectified total re-exports (iii) + (iv) (i.e. (iii)/((iii)+(iv))) during the three years, we can conclude that about 30 to 40 per cent of re-exports were mis-reported as domestic exports.

Disposal Quantities of Plastic Waste (2005-2014)



Note: Figures in brackets refer to year-on-year percentage changes.

Indexes On Disposal Quantities of MSW and Plastic Waste (2005-2014) (2005=100)



Year	Unit	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
MSW Disposal	Thousand tonnes	3,423	3,387	3,352	3,302	3,271	3,327	3,283	3,396	3,485	3,570
	y-o-y % changes (%)	0.7	-1.0	-1.0	-1.5	-0.9	1.7	-1.3	3.4	2.6	2.5
Plastic Waste Disposal	Thousand tonnes	637	624	605	623	622	708	618	668	681	736
	y-o-y % changes (%)	-2.4	-2.1	-3.1	3.0	-0.1	13.8	-12.7	8.1	1.9	8.0

Note: The indexes of the two variables shown above will depict accurately their movements over the past 10 years relative to the base year of 2005.

- (iii) actions that have been/would be taken by EPD to prevent the disposal of import recyclables at local landfills;**

Reply:

In line with the international practices adopted by other countries/ places, Hong Kong laws strictly prohibit the disposal of imported waste locally. It is an offence to import waste for disposal in Hong Kong. The EPD has close surveillance at landfills and refuse transfer stations on all incoming waste loads to prevent illegal disposal of imported recyclables. All vehicles entering a waste disposal facility must stop at the weighbridge for weighing and inspection. The drivers are required to open hood covers of their vehicles to facilitate inspection of the waste transported via closed circuit television system (CCTV). If it is suspected that imported recyclables are delivered to the landfill for disposal, the EPD will not only intercept and trace the source but also contact the owners to facilitate recycling of the waste so as to effectively prevent the disposal of imported recyclables at landfills. On interception of any attempt to dispose of imported recyclables in landfills, enforcement action will be taken. In the execution of the above control, the EPD has not found loads of imported recyclables disposed of at landfills.

- (c) According to paragraph 2.16 of the Audit Report, EPD commissioned Consultant A to review the abnormal fluctuations of MSW-recovery rates in 2012 and Consultant A reported in February 2014 that the fluctuations were likely due to the incorrect treatment of import recyclable plastics as locally-generated waste plastics recovered for export. In this regard, the follow-up actions that EPD and/or other government departments have/has taken, if any, to rectify the incorrect treatment by the relevant traders and exporters, such as issuing of guidelines in reporting the recyclable plastics as re-exports or domestic exports;**

Reply:

The relevant departments including the EPD, Census and Statistics Department and the Customs and Excise Department have implemented enhancement measures in the collection of export data of recyclables, which include preparing additional guidelines and training workshops to help recyclers and export trade declarants to better understand the declaration requirements (in particular regarding the definition of ‘domestic export’ and ‘re-export’ applicable to recyclable materials), strengthening checking of export declarations and collecting additional data from export trade declarants on the source of recyclable plastics declared as domestic export on a sample basis. The essence of these measures has been captured in the Audit Report (paragraphs 2.20-2.21).

(d) Import and export recyclable statistics on metals and papers in the past five years;

Reply:

The statistics based on trade declarations on metal recyclables are as follows:

Metals (ferrous and non-ferrous metals)					
(Thousand Tonnes)					
	2010	2011	2012	2013	2014
Import	596	541	492	464	445
Domestic Export	930	982	881	913	1,000
Re-export	331	341	390	435	410

The statistics based on trade declarations on paper recyclables are as follows:

Paper					
(Thousand Tonnes)					
	2010	2011	2012	2013	2014
Import	186	215	103	18	25
Domestic Export	1,195	1,278	1,162	1,033	949
Re-export	6	8	9	2	2

- (e) With reference to Figure 6 in paragraph 2.18, the reason for per-capita-per-day domestic MSW generation of Hong Kong was higher than those of Taipei City, Seoul City and Metro Tokyo in 2011, and the updated figures for 2014, if available;**

Reply:

As different cities have different geographical, social, economic and cultural circumstances, it would be extremely difficult to draw definitive conclusions on reasons for variations in their communities' behaviour. It is also relevant to note that the compilation of statistics of different cities may vary due to the differences in definitions and methodologies. That said, we agree it is useful to examine the trend of waste arising in these cities based on comparable parameters and relate this with the implementation of specific policies or programmes. For this purpose we have plotted the trend of domestic/household MSW disposal in the three places below and highlighted on the same chart their waste related policy developments. We have the following observations:

- (a) In both Taipei and South Korea, development of incinerators and landfills proceeded before the implementation of mandatory MSW charging. This may have reflected the sense of urgency or critical situation felt by the community concerned on the waste situation, which might have driven waste reduction behaviour.
- (b) The implementation of volume based MSW charging created the most significant impact on waste reduction. Other mandatory measures targeting at specific waste types helped to further reduce waste generation but the impacts were less significant. In Hong Kong, the domestic MSW disposal rate showed reduction in 2004 and the trend continued until 2012, after which the rate remains stable and at the relatively low level as compared with 2003. That could be attributed to a series of education and publicity measures that have been launched since 2004 (details of these programmes are shown on the chart below), as well as discussion on the critical situation of waste management and the need for additional treatment facilities such as incineration, extension of landfills, which started in 2005 along with the publication of a strategy-based Policy Framework document and consultation. Updates and more focused plans for engaging the community attention to the imminent waste issues were made in the subsequent years, including the announcement of strategy on "Reduction, Recycle and Proper Waste Management in 2011 and the issue of the Blueprint on Sustainable Use of Resources in 2013.

2. Though the scale of reduction in domestic MSW arising in Hong Kong is smaller when compared with the other two places, we have a similar trend of decline. We are of the view that with the implementation of the mandatory schemes which are either being considered by LegCo (PRS on WEEE and glass beverage bottles) or under preparation (MSW charging); we could drive behavioural change to reduce MSW disposal rate by 40% on a per capita basis by 2022.

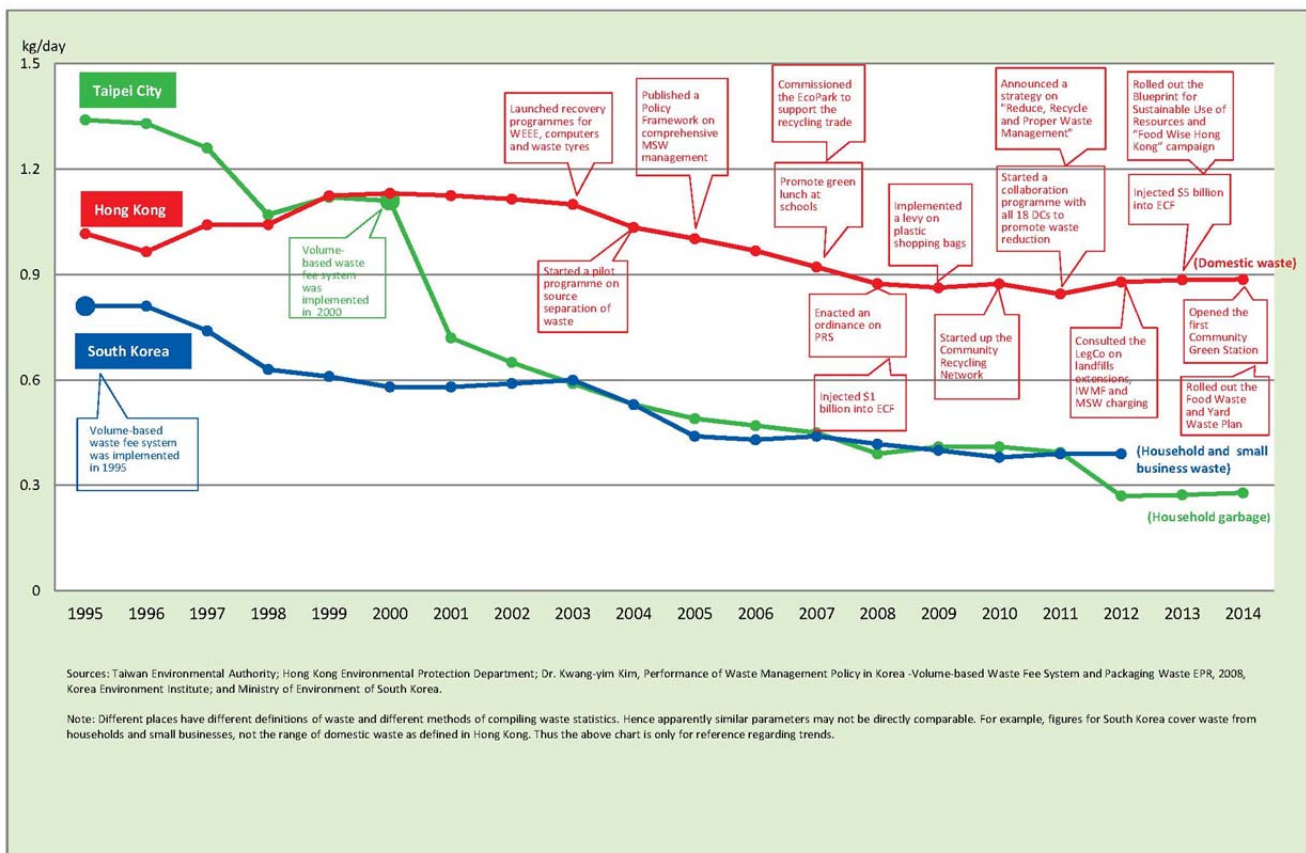
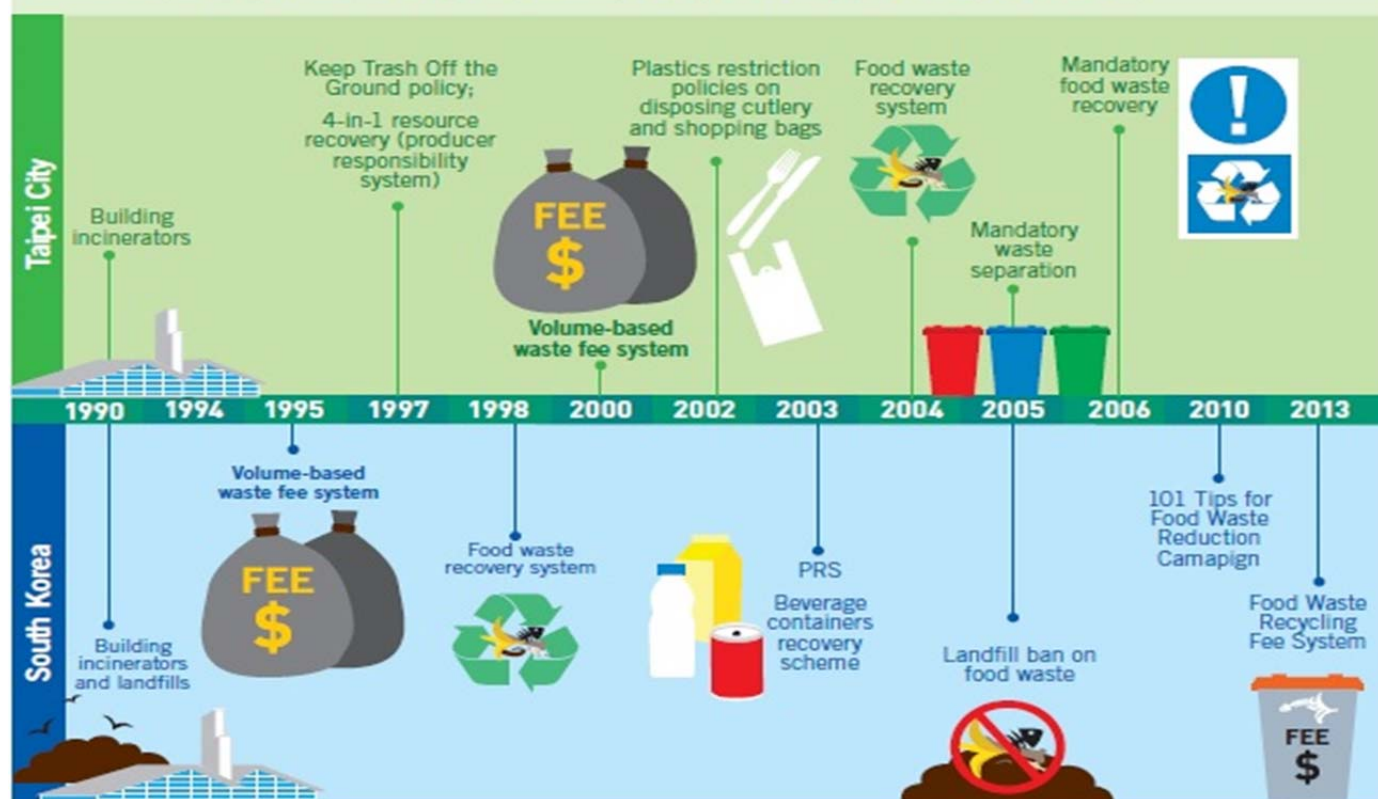


FIGURE 5 Schedule of waste policies and measures imposed in Taipei City and South Korea



(f) With reference to paragraphs 2.24 and 2.26 of the Audit Report –

- (i) the reasons for not meeting the time targets of producer responsibility schemes (“PR schemes”) on waste electrical and electronic equipment, vehicle tyres, glass beverage bottles, packaging materials and rechargeable batteries;**

Reply:

Under A Policy Framework for the Management of Municipal Solid Waste published in 2005 (“The 2005 Policy Framework”), it was the target to introduce three PR schemes into the Legislative Council (“LegCo”) in 2007 for plastic shopping bags (“PSBs”), waste electrical and electronic equipment (“WEEE”) and vehicle tyres respectively, two in 2008 for glass beverage bottles and packaging materials respectively and one in 2009 for rechargeable batteries.

2. We introduced the legislative proposals for the first PR scheme for PSBs in 2007 as part of the Product Eco-responsibility Bill (which was subsequently enacted in 2008 as the Product Eco-responsibility Ordinance (Cap. 603)). The original legislative approach was that Cap. 603 would provide the framework for PR scheme whereas product-specific measures would be subsequently introduced through subsidiary legislation. This proposed approach echoed the ambitious timetables as set out in the Framework.

3. However, the Environmental Affairs Panel (“the EA Panel”) did not support this legislative approach. Instead it requested that each PR scheme should be implemented through legislative amendment to the enabling legislation and subject to the three-reading scrutiny of the LegCo. More time was therefore needed to implement the various PR schemes under the latter legislative approach.

4. Furthermore, the actual experience also demonstrated that it was impracticable to complete the necessary preparatory work in relation to research, analysis, trial (if needed), consultation and law drafting for a PR scheme within the target timeframe as originally proposed under The 2005 Policy Framework. Having reviewed the implementation of the PR schemes having regard to the latest development and the experience we gained, we have accorded priority to the PR schemes on the extension of PSBs, WEEE and glass beverage bottles for which the legislative proposals have been introduced into the LegCo in May 2013, March 2015 and July 2015 respectively.

- (ii) **with reference to the studies mentioned in paragraph 2.24 of the Audit Report, details, scope and timeframe of the studies;**
- (iii) **the progress and revised time targets for implementing the remaining three PR schemes on vehicle tyres, packaging materials and rechargeable batteries (“three remaining products”);**
- (iv) **whether consideration would be given to implementing the PR schemes on the three remaining products concurrently with a view to expediting the implementation process and**

Reply:

As committed under Hong Kong: Blueprint for Sustainable Use of Resources 2013-2022 (“the 2013 Blueprint”), the Government will conduct studies on the PR schemes for other products between 2016 and 2018. In conducting the studies, we will take stock of the present position of the relevant products as an environmental problem in Hong Kong including their current waste generation rate and effectiveness of the existing recycling efforts. We will then assess the need of any enhanced efforts to promote their recycling and proper disposal and whether a PR scheme should be introduced. In 2014, about 21 tonnes per day (“tpd”) of waste vehicle tyres was disposed of at the landfills. Rechargeable batteries are counted towards household hazardous wastes (HHWs) alongside paints, pesticides, fuels, cylinders, electrical appliances, computer products, mercury-containing fluorescent lamps and medicines, etc. and about 160 tpd of HHWs was landfilled in the same year. As regards packaging materials, we do not have specific disposal figures as we are unable to trace the source or uses of the waste at the landfills solely on the basis of the nature of materials.

2. In case a PR scheme is considered necessary and appropriate for a particular product, we will conduct further research with a view to drawing up the initial proposals for the regulatory framework and other complementary measures for public consultation and trade engagement as soon as practicable. The actual timetable for introducing the legislative proposals into the LegCo will depend on complexity of individual PR schemes, including the applicability of experience accumulated through the first three schemes. In case more than one PR scheme is pursued and if circumstances permit, we will aim to expedite actions and will not rule out the possibility of an omnibus bill which may carry legislative proposals for multiple PR schemes.

- (v) **current measures adopted by the Administration to encourage the recycling of the three remaining products before the relevant legislation is enacted;**

Reply:

With the support of the relevant trades, a voluntary PR scheme has been in place to promote the recycling and proper disposal of rechargeable batteries since April 2005⁴. Since 2013, following targeted publicity through the Voluntary Agreement on Management of Mooncake Packaging⁵, we have been monitoring the eco-friendliness of packaging methods of mooncake products through periodic surveys. As for vehicle tyres, we have been monitoring the waste generation and our annual waste statistics shows that its landfill disposal dropped drastically from a daily average of 49 tonnes per day (“tpd”) in 2005 to 21 tpd in 2014 (and at one point less than 2 tpd in 2011). On the other hand, a piece of land in the EcoPark has been leased to a private recycler to develop a rubber vehicle tyre treatment plant, which is scheduled for commissioning in early 2016.

4 A similar voluntary PR scheme for compact fluorescent lamps has been in place since March 2008.

5 We operated the Voluntary Agreement scheme between 2008 and 2012. Through the scheme, we invited mooncake manufacturers to sign a voluntary agreement, under which the participating manufacturers commit to conserving resources through better design and production processes, facilitating the re-use and recycling of used packaging materials, and minimising the adverse environmental impact arising from the disposal of used packaging in their manufacturing and retail operations.

(g) Timeframe for completing the post-implementation review of the 2005 Policy Framework and reporting the review results to the Legislative Council Panel on Environmental Affairs (“EA Panel”) (paragraphs 2.34(e) and 2.35 of the Audit Report refer)

Reply:

To address the waste problem in a holistic manner and gather public support, we have publicised comprehensive strategy and policy tools and measures in major policy documents on waste management. We have also updated various initiatives timely in light of the society’s development and closely engaged the public and the relevant stakeholders.

2. In the Policy Framework for the Management of Municipal Solid Waste (2005-2014) (“the 2005 Policy Framework”), we set out targets to reduce waste generation, increase recovery rate and reduce disposal quantity. In light of the initial achievements and in experience gathered, we thoroughly reviewed our positions and updated the targets and actions plans in 2011 (the 2011 Review) to cope with the latest challenges. We had briefed EA Panel of the progress of the various targets and actions plans of the 2005 Policy Framework and the 2011 Review at its meetings of April 2009, January 2011 and March 2012. Taking stock of the experience gained in the implementation of the Policy Framework and the 2011 Review, as well as the latest development in Hong Kong and elsewhere, we had consolidated past actions and updated the relevant policy tools and implementation strategy in the 2013 Blueprint. In this regard, we had briefed the EA Panel on the 2013 Blueprint in May 2013. We do not consider that the 2005 Policy Framework, the 2011 Review and the 2013 Blueprint are unrelated documents. While the multi-pronged strategies in waste management remain unchanged, the Blueprint represents continued refinement of the action plans and their timetables in the light of our experience and the social, economic and political developments. In our view it would be more fruitful to focus on the implementation of the 2013 Blueprint at this stage. We would brief the EA panel on the progress and initial achievements of our waste management measures promulgated in the 2013 Blueprint in 2016 when the waste statistics for 2015 is available.

(h) Measures to strengthen the gathering of reliable statistics in assessing the effectiveness of PR schemes (paragraph 2.53(b) of the Audit Report refers);

Reply:

Since we have extended the PR scheme on PSBs to cover the entire retail sector with effect from 1 April 2015, Audit's concern that some "pertinent PSBs" were distributed by registered retail outlets is no longer relevant. We plan to strengthen our efforts in assessing the effectiveness of the extension in the PR scheme through –

- (a) conducting periodic telephone surveys to gauge information on consumers' attitude and behavioural change in response to the PR scheme;
- (b) reviewing the information published by the Hong Kong Retail Management Association which has agreed to coordinate the voluntary reporting of the relevant statistics by its members;
- (c) commissioning dedicated surveys to assess the likely sources of the PSBs classified under the "Others" category.

As for the new PR schemes for WEEE and glass beverage bottles, their effectiveness will mainly be assessed on the basis of the amount of WEEE and glass containers recovered through the respective schemes. The relevant statistics can be compiled directly from the records that will be submitted by the management contractors.

Recovery of municipal solid waste

- (i) Given the drastic decline of the MSW-recovery rates, from 52% in 2010 to 37% in 2013 and 2014, possibly as a result of the erroneous inclusion of import materials in the statistics, whether EPD would consider setting a new target for MSW-recovery rate (Figure 8 of the Audit Report refers);**

Reply:

Unlike the approach adopted in the 2005 Policy Framework, the 2013 Blueprint adopts a single target of reducing per-capita MSW disposal rate by 40% by 2022. This target is measurable in that it is based on direct weighbridge data recorded at the waste disposal facilities, and it is also more embracing as it quantifies the combined effect of the different action plans for reducing waste generation at source and enhancing waste recovery and recycling. Achieving the MSW disposal rate reduction target set in the Blueprint would largely be contingent upon the implementation of various waste reduction measures in particular the completion of Phases 1 and 2 of OWTF, the effectiveness of the Food Wise Campaign in changing the behaviour of the business sector and the general community, and the implementation of the MSW charging by 2022. The 55% recovery rate mentioned in the 2013 Blueprint is not a target in itself. Rather it illustrates the different composition of the waste management structure in 2022 as compared with the base year of 2011 where the then recovery rate was 48%, if we are able to achieve the various waste reduction measures set out in the 2013 Blueprint. If the recovery rate for 2011 needs to be adjusted due to mis-reporting by recyclers, then corresponding adjustment should be made for that in 2022 by using the same methodology. The end result is likely that the proportion of different components would remain the same. As we are now implementing in full steam the 2013 Blueprint action plans and mobilizing the community's participation in these plans, we consider that it serves no meaningful purpose to focus on past overtaken actions and to set a recovery target for the 2013 Blueprint when the emphasis should be on the more measurable MSW waste disposal rate

(j) Measures to raise the recovery rate of waste plastics (paragraph 3.18 of the Audit Report refers).

Reply:

We shall continue to take multiple measures to promote recovery of waste plastics, including:

- (a) To step up communication with property management companies and concerned parties to take initiatives to enhance the collection arrangement of recyclables. These initiatives include enlisting their support for active participation in recycling, proper sorting of waste by their types, and rinsing the recyclables where possible. This is conducive to saving transportation and processing costs by recyclers. The hygienic condition of the recyclables handling process will also be improved.
- (b) To continue to carry out promotional and publicity work under the Clean Recycling Campaign to drive behavioural change so as to enhance the cleanliness and the hygienic condition of waste plastics and other source separated recyclables. An enhancement in the quality and quantity of the recyclables increases their value and thereby reducing resource from being dumped at the landfills.
- (c) To leverage on the Recycling Fund to assist recyclers, including those which are small and medium-sized enterprises, in upgrading and expanding local recycling operations and network in the form of a matching fund. Through upgrading their operation e.g. install plastic washing and pelletizing machine to enhance the value of recycled materials, they will be in a better position to tackle challenges posed by market fluctuations. These enhancements will raise the recovery rate of waste plastics.

2. We are committed to maintaining close contact and communication with the local recycling industry and relevant stakeholders. We will also monitor closely the market situation of plastic recyclables and refine our support measures timely.

(k) With reference to paragraph 3.34 of the Audit Report, measures by EPD to review the effectiveness of the source-separation programme.

Reply:

The EPD, in collaboration with various stakeholders, has been taking multiple actions to raise public awareness of source separation of waste and clean recycling. These actions include promotion of the three-colour recycling bins system, educational and promotional activities to targeted recipients and publicity programmes on different themes to reach out to community members. All these efforts contribute to driving behavioural change of the public and cultivating a persistent habit to practise recycling frequently and properly. While it is not practicable to quantify the effectiveness of a voluntary promotional programme such as the source-separation programme in isolation, we plan to engage a consultant to conduct a review of the implementation of the source-separation programme and make recommendations to improve the programme, including how to encourage and strengthen the collection of statistics on recyclables collected by participating estates as well as to further enhance public awareness and participation rate, increase quantity of recyclables recovered. We will refine our promotion strategy in the light of the review.

- (l) According to paragraph 3.37 of the Audit Report, due to the lack of reporting requirements in the recyclable collection service contracts, the Government did not have statistics on the quantities of recyclables collected from waste-separation bins (WS bins) which were disposed of at landfills due to contamination or other reasons. In this regard,**
- i) Please explain how EPD would monitor and review the effectiveness of the recyclables-collection scheme without the relevant statistics;**
 - ii) Whether EPD would consider requesting contractors to submit such information for public disclosure. If no, the reason for that;**
 - iii) Measures to monitor the contractors to ensure that the non-contaminated recyclables would be transported to approved recyclers, and the results of these monitoring activities in the past years; and**
 - iv) The total expenditure incurred for collecting recyclables from WS bins in the past five years.**

Reply:

The FEHD has engaged a contractor through outsourcing to provide recyclables collection service. The contractor is required to collect waste paper, metal and plastic from 2,850 public WSBs placed at locations such as pavements, refuse collection points, public markets, bus terminals and venues managed by schools, the Water Supplies Department and the EPD. The expenditures incurred by the FEHD on the contracts of collecting recyclables from WSB over the past few years are :

Term of Service Contract	Contract Value (\$m)
August 2010 – July 2012	9.0
August 2012 – July 2014	12.9
August 2014 – July 2016	21.6

2. According to the service contract, contractors must hand over the collected recyclables to the designated recycler for process. To improve monitoring and accountability, the service contract signed between the FEHD and the contractor that took effect in August 2014 has included the following additional tender terms:

- (i) To facilitate on-site monitoring, the contractor is required to use transparent plastic bags for collection of recyclables, and the bags should be printed with the words “used for collecting recyclables”. Notices showing “FEHD contractor providing collection service for recyclables” should be displayed on both sides of the body of its collection vehicles;
- (ii) The contractor is required to nominate up to two local recyclers to receive and recycle plastic recyclables when submitting their bids for the contracts. Each recycler nominated shall have independent capability and experience to properly process plastic recyclables at a designated recycling site; and
- (iii) The FEHD may direct the contractor to change its recyclers if their performance is not satisfactory.

3. The FEHD has set up a comprehensive contract management mechanism under which the FEHD staff conducts regular and surprise checks to monitor the performance of the contractor. If any breach of contract provisions is found, the FEHD will take punitive actions accordingly, including issuing verbal warning, written warning and default notices. The monthly amount payable to the contractors who have received default notices will be deducted in the light of the breaches.

4. Since August 2014, the EPD has also set up an additional monitoring mechanism to ensure the plastic recyclables collected by FEHD's contractor would be properly processed by the engaged recycler. The EPD conducted site inspection to assess the recyclable processing ability of the nominated recycler and provided recommendation to FEHD at the tender stage. Since the FEHD had awarded the contract in August 2014, the EPD has conducted 9 site visits to check the operation of the recycler. Similar monitoring arrangement has been implemented to AFCD and LCSD recyclables collection service contracts and it will be extended to cover paper and metal recyclables in the forthcoming contracts. Under the current FEHD contracts for the collection of the recyclables, the contractors are required to provide data on the quantity of recyclables collected. We will explore with FEHD how to enhance the disclosure of information related to the quantity of recyclables collected by the contractors and information on the amount of recyclables which are actually recovered or disposed of due to contamination.

5. For recycling bins placed at locations such as country parks, leisure and cultural facilities, public housing estates, government quarters and government office buildings, the maintenance and management are provided and paid for by relevant departments or property management companies. The costs incurred are generally included in the refuse disposal and cleansing management contracts as a whole and no breakdown of such items is available.

(m) Results of the review on the location of waste separation bins in public places.

Reply:

The Government places strong emphasis to promote waste separation and build up recycling habits of the public and facilitate them to participate in recycling by placing waste separation bins in public places and organising relevant promotion activities. In 2014, we placed about 15 800 sets of WSB throughout the territory at locations such as pavements, public transport interchanges, refuse collection points, leisure and cultural facilities, country parks, schools, public/private housing estates, shopping centres, government quarters/offices and hospitals/clinics, etc.

2. The locations of recycling bins are decided based on various factors, including actual needs and demand, site location, utilization rate, quantity of recyclables collected.

3. With a view to facilitating waste reduction and resource recovery, the Environment Bureau will convene a Steering Group to review among other things the design and distribution of recycling and refuse collection bins in public place and to recommend transformation as appropriate. We will take into account views of relevant stakeholders in the process.

- (n) With reference to paragraphs 3.39(a) and 3.40 of the Audit Report, the measures to strengthen promotion efforts to encourage participating housing estates and commercial and industrial buildings to provide EPD with statistics on recyclables collected from waste-separation bins.**

Reply:

At present, a list of participating housing estates/buildings and a list of award-winning housing estates and residential buildings in the annual competition under the Source Separation Programme is published on the EPD Hong Kong Waste Reduction website. While it is voluntary for participating housing estates and commercial and industrial buildings to provide statistics on recyclables collected from waste-separation bins to the EPD, we plan to take the following measures to encourage them to report the relevant data to us:

- (a) To organize commendation schemes to recognize the property management companies or their owners whose buildings have reported and attained increases in recyclables collected from the source separation bins. Subject to feedback from consultation with the stakeholders, we are ready to promote transparency of the reports on the statistics to encourage participation of residents and workers in recycling;
- (b) To provide guidelines to assist collectors and recyclers to provide summary and analysis of the types and quantity of recyclables collected from the participating housing estates and commercial and industrial buildings on a timely basis; and
- (c) To organize training to frontline staff on the purpose and process to collate and compile the statistics from recycling bins with a view to alleviating their perceived increase in workload or concerns on the additional resources required in the process.

2. We will continue to engage the stakeholders and refine our promotional efforts to drive better results.

Recycling of municipal solid waste

- (o) The Administration's assessment on whether the EcoPark, with a construction cost of \$308 million, has met its target objectives for Phases 1 and 2 respectively.**
- (p) According paragraph 4.3(b), Tables 7 and 8 of the Audit Report, the total minimum throughput of 64 529 tonnes per quarter under Phases 1 and 2 of EcoPark of August 2015 has significantly exceeded the target throughput of 58 600 tonnes a year which was set in 2006. In this regard, whether EPD would set a new target throughput and use other performance indicators to assess the performance of EcoPark**

Reply:

The EcoPark is one of the Government's major initiatives to promote the development of the local recycling industry. Its objectives are set out in the PWSC paper to the Legislative Council in 2006 [*PWSC(2005-06)49*] as follow:

- (a) Encourage the development of value-added environmental and recycling technologies that help minimise waste generation or turn locally recovered materials into products for material conservation;
- (b) Process recyclable materials with priority on those subject to producer responsibility scheme and other materials that are otherwise difficult to recycle; and
- (c) Facilitate tenants to achieve the projected throughputs of target materials.

2. There are currently 13 tenants in the EcoPark engaged in processing a variety of waste types, including those identified for control under producer responsibility scheme (i.e. waste electrical and electronic equipment (WEEE) and waste glass beverage bottles), those that are difficult to recycle therefore have limited local recycling outlets such as food waste, waste wood and waste cooking oil, as well as those that lack a robust market for the processed materials such as waste rubber tyres. The total pledged capital investment by the tenants has exceeded \$300M. Examples of advanced technologies employed in the recycling operation include-

- (i) enhanced resonance system to mechanically dismantle and break waste glass into designed particle size. The resulting cullet is used for mass production of eco-pavers and eco-blocks for use in various construction projects;
- (ii) modern fermentation technology which enables food waste to be decomposed into nutrient powder. The recycled product is used as a major ingredient for production of fish feed for sale to fish farmers; and

(iii) esterification process to enhance productivity in manufacturing of bio-diesel from waste cooking oil and grease trap waste collected from local sources.

3. As in December 2015, over 200 staff are employed in the EcoPark. Many of them are in technical or professional levels. Moreover, as more tenants start commissioning their operations, the original projected annual throughput set at 58,600 tonnes in 2006 has been exceeded. Indeed in their tender returns, tenants have to pledge for minimum outputs. The current tenants have in total pledged to handle 200,000 tonnes in a full year upon full commissioning. In 2014, the amount of recyclables recovered by the EcoPark tenants amounted to over 150,000 tonnes. Looking ahead, we would continue to raise the community awareness of the Ecopark tenants so as to assist them in broadening their network in sourcing recyclables for treatment. General promotion on green procurement and importance of recycling will also be stepped up.

4. We will also leverage on the EcoPark to disseminate information on proper recycling and cultivate a habit of recycling in daily lives of community member. Over 110,000 visitors have visited the EcoPark Visitor Centre since its opening in March 2010. We will strive to increase the number through various means e.g. organized tours, open day.

Treatment and disposal of municipal solid waste

(q) With reference to paragraph 5.9 of the Audit Report, the reasons for the postponement of the target of commissioning a waste-to-energy plant (later renamed as integrated waste management facility) from mid-2010s to “2019 to 2022”;

Reply:

As stated in the paragraph 6.13 of the Audit Report, the long time taken for the development of IWMF Phase 1 is due to the need to obtain public consensus on related issues.

2. In the past decade we have been actively engaging the public on various issues for development of the project including the choice of the incineration technology, site selection, public consultation on environmental issues and zoning application through EIA and town planning processes, etc.

3. We carried out a comprehensive site search exercise in 2006 to identify suitable sites for developing the first phase of IWMF and following the completion of the site search exercise in early 2008, Shek Kwu Chau site and the Tuen Mun Tsang Tsui Ash Lagoons site were found suitable as potential sites. In order to ascertain the suitability of these two potential sites, we commissioned the detailed Engineering Investigation and Environmental Impact Assessment (EIA) studies for both sites in November 2008. The engineering investigation and environmental studies for the two potential sites for IWMF Phase 1 were completed in 2011.

4. Longer than expected time was required to obtain public consensus for development of the project. Since February 2011, we had met with over 2,500 stakeholders and about 60 groups/organizations, and attended 70 meetings to explain the need of the project and to address their queries on various aspects of the project. We consulted the Advisory Council on the Environment (ACE) on the findings of the feasibility study and the proposed moving grate incineration technology on 14 December 2009. At district council level, we attended the Islands District Council (IsDC) on 21 February 2011, 20 February 2012 and 16 December 2013. Since 2002, we had attended over 10 LegCo EA Panel meetings to explain the need and justifications for the project. However, we were not able to secure the support of the EA Panel to submit the funding proposal to Public Works Subcommittee (PWSC) until 28 March 2014. The proposal was submitted to PWSC on 16 April 2014 and endorsed by PWSC on 27 May 2014 after 5 meetings. It was submitted to Finance Committee (FC)

on 24 October 2014 and was approved by FC on 9 January 2015 after 10 meetings.

5. After obtaining funding approval from the FC on 9 January 2015, we immediately commenced the pre-qualification exercise in March 2015 to invite interested companies to make submission for pre-qualification. Preparation works for tender documents are now in progress. We plan to invite tenders from the pre-qualified tenderers for the design, build and operate of the IWMPF Phase 1 in 2016 and commission the facility in 2023.

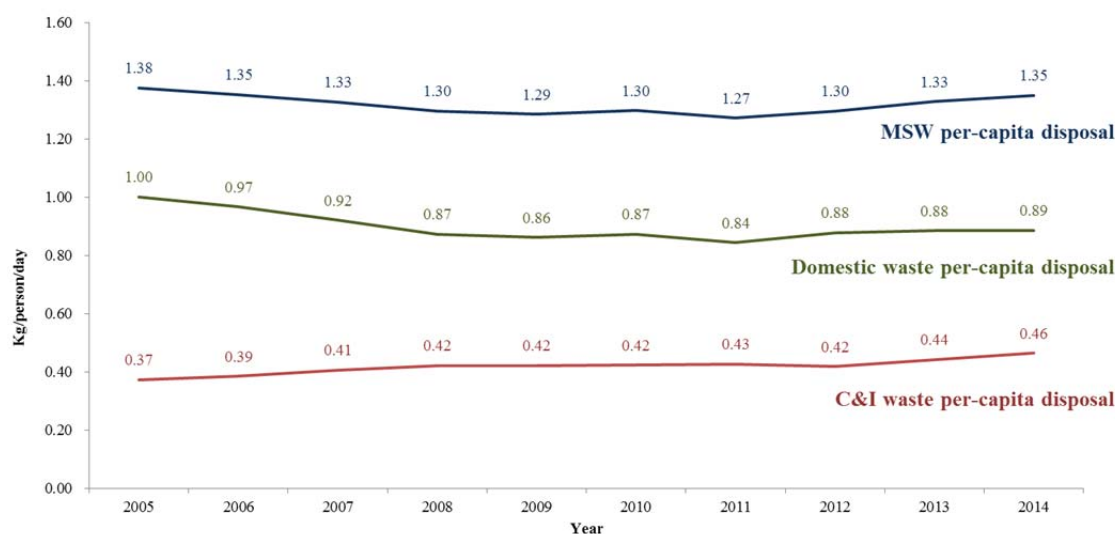
(r) According to Table 14 in paragraph 5.14 and paragraph 5.15 of the Audit Report, notwithstanding the various actions taken by EPD in recent years to reduce the MSW generation and increasing the MSW recovery, the rising trend in both the total quantities and per-capita quantities of MSW disposed of at landfills from 2011 to 2014 is a cause of concern. Please explain why there was a rising trend in MSW-disposal at landfills;

Reply:

To better understand the trend of MSW disposal rates, we suggest that a longer term outlook on a per capita basis should be adopted. The table at Chart 1 below could better illustrate the trend of MSW disposal rates over the past 10 years. The total MSW per capita disposal rate actually was on a declining trend from 2005 to 2011 (from 1.38 kg/person/day in 2005 to 1.27 kg/person/day) but has since been on a slightly rising trend (1.35 kg/person/day in 2014). The declining trend could largely be attributed to the decline in domestic waste per capita disposal rate (1.00 kg/person/day in 2005 to 0.89 kg/person/day in 2014). On the other hand, there has been a slightly rising trend in C&I waste per capita disposal rate (from 0.37 kg/person/day in 2005 to 0.46 kg/person/day), offsetting the reduction in domestic waste.

2. As economic growth generally increases the level of consumption and production activities which in turn may contribute to generating more waste, we assess that the rising trend of C&I waste disposal rate over the past ten years is likely caused by increases in economic activities. As shown in Chart 2, the growth of per-capita-per-day C&IW disposal rate over the last ten years correlates normally with the growth of real GDP.

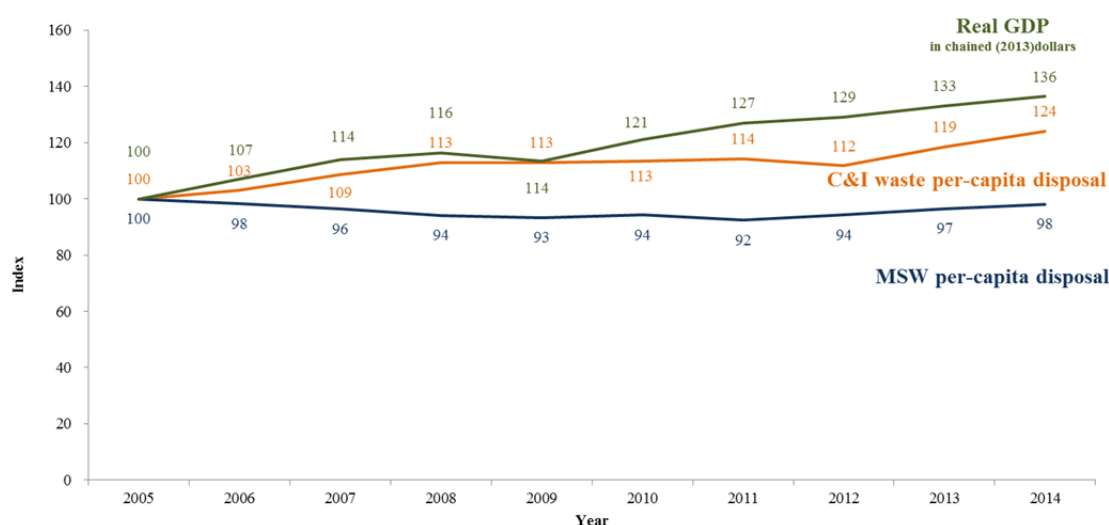
Per Capita Per Day Disposal of MSW, DW and C&I Waste (2005 - 2014)



	Unit	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Domestic waste per-capita disposal	Year % changes (%)	-3.1	-3.5	-4.8	-5.1	-1.3	1.3	-3.3	4.0	0.7	0.2
C&I waste per-capita disposal	Year % changes (%)	11.6	3.1	5.4	3.9	0.1	0.3	0.8	-2.2	6.1	4.7
MSW per-capita disposal	Year % changes (%)	0.5	-1.7	-1.9	-2.4	-0.9	0.9	-2.0	1.9	2.4	1.7

Note: The unit of Kg/person/day will discount the factor of population growth in the movements of the waste disposal rates.

Indexes On Real GDP, Per-capita Disposal of MSW and C&IW (2005-2014) (2005=100)



	Unit	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
C&I waste per-capita disposal	Kg/person/day	0.37	0.39	0.41	0.42	0.42	0.42	0.43	0.42	0.44	0.46
	Year % changes (%)	11.6	3.1	5.4	3.9	0.1	0.3	0.8	-2.2	6.1	4.7
MSW per-capita disposal	Kg/person/day	1.38	1.35	1.33	1.30	1.29	1.30	1.27	1.30	1.33	1.35
	Year % changes (%)	0.5	-1.7	-1.9	-2.4	-0.9	0.9	-2.0	1.9	2.4	1.7
Real GDP	Constant BHS billion	1,606	1,719	1,830	1,869	1,823	1,947	2,040	2,075	2,139	2,192
	Year % changes (%)	7.4	7.0	6.5	2.1	-2.5	6.8	4.8	1.7	3.1	2.5

Note: Movement in the indexes (2005=100) over time will accurately reflect the movements of the selected variables relative to the base year of 2005.

3. Both the 2005 Policy Framework and the 2013 Blueprint recognize the importance of reducing waste at both the domestic and C&I sectors. A number of educational and policy waste reduction measures have been implemented which resulted in slight reduction of the overall MSW waste disposal rates over the past 10 years. But clearly more efforts would need to be made if we are to achieve the waste reduction target set out in the 2013 Blueprint. To this end, we will vigorously pursue the various actions set out in the Blueprint and closely monitor progress of the various waste reduction measures in both the domestic and C&I sectors.

(s) According to paragraph 5.19 of the Audit Report, the historical MSW-disposal shows a weight-to-volume ratio of 1.24 tonnes of waste : 1 cubic meter (m³) of landfill space. However, EPD has adopted a ratio of 1 tonne of waste : 1 m³ of landfill space for estimating the remaining serviceable lives of the three landfills. Please explain why EPD has adopted this ratio in estimating the remaining serviceable lives of the landfills;

Reply:

Construction waste represented about 50% of total waste disposed of at the landfills (1990-2005 average) prior to the implementation of construction waste disposal charging scheme in 2006, whilst thereafter the proportion was significantly reduced to about 25% (2006-2014 average). A ratio of 1.24 tonnes of waste : 1 cubic meter (m³) of landfill space was derived by the Audit based on historical information back to 1990s. However, inert construction waste (e.g. rock and concrete debris) has a higher weight-to-volume ratio as compared with ordinary municipal solid waste. In light of the significant reduction of inert construction waste requiring landfill disposal since 2006, EPD had adopted a more prudent and realistic assumption of a lower weight-to-volume ratio of 1 tonne of waste: 1 m³ in estimating the remaining serviceable lives of the three landfills.

- (t) According to paragraph 5.20 of the Audit Report, in estimating the remaining serviceable lives of the three landfills, EPD had assumed that there would be growth in the MSW quantities, construction waste and special waste being disposed of at landfills in the coming years. Please explain the basis of such assumptions, and whether EPD has taken into account the effort made in recent years in reducing, recycling and recovery of MSW in arriving at such assumptions;**

Reply:

Actual waste arising correlates closely with changes of population, level of economic and major construction activities, etc. In estimating the remaining serviceable lives of the three landfills in the course of planning of the landfill extension projects in 2011/2012, the EPD had made reference to the best available information at that time, including projected annual population growth [of 0.8% ~ 1.0%] from the C&SD, forecasted GDP growth rate [of 4% per annum] from the EABFU and the latest information on annual increase in construction waste disposal at landfills [of 14.8% from 2009 to 2010], and adopted the assumptions that there would be a 2.5% annual growth rate of MSW and a 10% annual growth rate of construction waste respectively. Regarding the arising of special wastes, we adopted a moderate annual growth rate of 5% in the planning exercise, having regard to its comparative minor share of 8% of the total waste disposal at landfills.

2. In adopting the above assumptions on MSW and construction waste growth rates, EPD had taken into account the impacts of the promotional efforts on waste reduction and recycling. Nevertheless, as landfills were the last resort for waste disposal, we had been prudent in the planning assumptions.

- (u) EPD informed Audit on the assumptions behind the estimated time of the three landfills reaching their capacity of 2014 to 2018 in paragraph 5.19 of the Audit Report (“assumptions in the Audit Report”). Acting Secretary for Environment stated in her opening remark that “[Legislative Council] Members were provided with the information they requested, including those on the assumptions adopted in the estimation”. In this connection, please list out the assumptions provided to Members when scrutinizing funding applications in 2014; whether these assumptions include the assumptions in the Audit Report; if not, the reasons for omitting such information;

Reply:

During the process of seeking funding approval from the LegCo for the landfill extension projects, EPD provided information about the approach adopted in estimation of the remaining serviceable lives of landfills to the EA Panel, PWSC of the FC, and the FC of the LegCo. The relevant information and discussion at the LegCo are summarized in the Table below:

Table – Relevant information and discussion at the LegCo about the approach adopted in estimation of remaining serviceable lives of landfills

Papers Meeting Minutes	/ Extracts of Relevant Information and Discussion at the LegCo
EA Panel Paper for discussion on 26.3.2012 EA Panel Paper for discussion on 27.5.2013 EA Panel Paper for discussion on 24.2.2014	<u>Note 1 in Annex A1 or A:</u> In assessing the anticipated year of exhaustion of the landfill, certain planning assumptions have been adopted to allow for fluctuation in waste disposal notwithstanding the continuing efforts in waste reduction and recycling. As landfills are the last resort for waste disposal, prudent and realistic planning assumptions are applied. Such assumptions include moderate growth in wastes due to population growth, increases in economic activities and major development projects having regard to historical trend and economic forecasts.
Minutes of	77. AD(EI)/EPD replied that to predict when a landfill

Papers Meeting Minutes /	Extracts of Relevant Information and Discussion at the LegCo
PWSC Meeting on 16.4.2014	<p>would be exhausted, the Administration would take into account various factors such as the rate of increase of the quantity of waste, population growth, waste reduction efforts, actual quantity of waste that had been delivered to the landfill in the past few years, and the measures to be taken to increase the landfill capacity, etc. In such estimation, allowance would be made for accommodating an annual increase of about 2% in the amount of waste requiring disposal. Moreover, the Administration's efforts in reducing and recycling waste made in recent years had helped slow down the exhaustion of the landfill.</p>
Minutes of PWSC Meeting on 7.5.2014	<p>28. AD(EI)/EPD replied that the estimation on the year of exhaustion of the SENT Landfill was subject to constant review. Changes to the estimation would be made when appropriate.</p> <p>29. In response to Dr Fernando CHEUNG's enquiry about the Administration's latest estimation on the year of exhaustion of the SENT Landfill, AD(EI)/EPD advised it was anticipated that the landfill would be exhausted by 2015. She explained that in the past two years, the overall quantity of waste generated in Hong Kong had been increasing at a rate of about 4%. Given that various infrastructure projects were underway, there would also be a moderate increase in the quantity of construction waste in future. In planning the landfill extension, allowance would be made for an annual increase of about 2.5% in the quantity of municipal solid waste ("MSW").</p> <p>31. AD(EI)/EPD replied that in assessing the anticipated year of exhaustion of the landfill, the Administration had taken into account various factors such as the rate of</p>

Papers Meeting Minutes	Extracts of Relevant Information and Discussion at the LegCo
	increase of the generation of waste, population growth, actual quantity of waste that had been delivered to the landfill in the past few years and waste reduction efforts, etc.
Minutes of FC Meeting on 14.11.2014 Session 1	28. AD(EI) said that several factors had to be taken into account in estimating the remaining life of a landfill. These included the growth in population, economy, the rate of waste generation, and the effectiveness of various waste reduction measures. The remaining available space in the SENT landfill and the ability to compress the waste material disposed of would also affect the life of the landfill. AD(EI) added that apart from construction waste, a large amount of MSW was disposed of at the SENT landfill each year. If this remained unchanged, the SENT landfill would likely be exhausted by 2015.

2. The detailed assumptions that EPD adopted in the projection were set out in paragraph 5.19 (a) to (d) of the Audit Report. These planning assumptions covered population growth, increases in economic activities, fluctuation of waste quantity, effectiveness of waste reduction measures, as well as information on landfill operation and landfill extension projects (such as enhanced odour control measures at landfills, EIA/EP requirements for landfill extension projects). In response to questions raised, factors taken into account in projecting the remaining capacity of the landfills were presented. We note Director of Audit's view that additional information on quantifiable data should also be presented in future funding applications. We have no problem with this and would do so in future applications.

- (v) With reference to paragraph 5.22(a) of the Audit Report, actions to be taken to reduce MSW generation and increase MSW recovery;**

Reply:

The Blueprint analyses the challenges and opportunities of waste management in Hong Kong, and maps out a comprehensive strategy, targets, holistic policies and ten-years' action plans for waste management with a view to tackling the waste problems in Hong Kong. We will endeavour to implement the 2013 Blueprint and appeal to the public for support to achieve the targeted results. Our major initiatives in the coming years include:

- (a) Driving behavioural change through mandatory schemes:** Overseas experience has shown that implementing quantity-based charging can create financial incentive to drive changes in the public's waste-generating behaviour, thus achieving an overall reduction in waste disposal. We are working towards implementing quantity-based charging in accordance with the views collected during the public engagement process. We are now progressively implementing the PR Scheme. The plastic shopping bag charging has been fully implemented since April 2015 and we have commenced the legislation exercise on the PRS for waste electrical and electronic equipment and glass beverage bottle. We will also conduct a review taking into account the experience accumulated and consider extending the scope of regulation to other types of containers in future.
- (b) Continuing efforts on education and publicity:** The ECF will continue to fund projects by green groups and NGOs at community level to mobilize the local community to participate in waste reduction, source separation and clean recycling. We will enhance our collaboration with government departments, district councils, schools, housing estates, property management companies, green groups and social services organisations in setting up more community recycling points to form a wider community recycling network to help develop the habit of clean recycling. We are also progressively developing one community green station (CGS) in each of the 18 districts, which will be run by non-profit making organisations to step up environmental education and enhance the logistics support in the collection of various low-value recyclables (such as electrical appliances, computers, plastic bottles, glass bottles, compact fluorescent lamps and rechargeable batteries) in the local community.
- (c) Promoting sustainable development of the recycling industry:** We have launched the \$1 billion Recycling Fund to assist recyclers to improve the collection network for recyclables, invest on machinery to lower the

processing costs, develop value-adding recycled products, explore new market, obtain certification for the recycling process, attend training to enhance their skills and awareness of occupational safety and health etc. We will take heed of the advice and recommendations of the Advisory Committee on Recycling Fund, which comprises experts, academics and people with experience in business management and community service, as well as representatives from various business and industry associations, in operating the Fund. Meanwhile, we are stepping up co-operation with the industry to increase the operational capability of local recyclers and uplift the image of the industry, raise the standard of the occupational safety and health, enhance the training for current practitioners and attract more newcomers to join the industry.

- (d) **Promoting food waste reduction:** We will continue with the Food Wise Hong Kong Campaign to promote public awareness of the food waste problem in Hong Kong. We will also encourage behavioral changes in various sectors of the community for reduction in food waste. We will continue to give support to non-government organisations and encourage them to collect from business establishments such as supermarkets, wet markets, restaurants, clubs, hotels etc., food which is surplus but edible or is approaching but not reaching the expiry date for donation to the people in need.
- (e) **Strengthening infrastructural and land support:** We will continue to monitor the performance of tenants and usage of sites at the EcoPark, and to encourage tenants to invest in advanced technologies and recycling processes and enhance our facilitation measures to address their operation needs at different stages of development. We are conducting a study on land support required for continuable development of the recycling industry.

2. We will continue to review the effectiveness of these measures, draw on the experience of other cities and countries, and take follow-up actions and enhancement measures in a timely manner.

Way Forward

- (w) **According to the papers submitted by the Administration to EA Panel in 2008, 2012, 2013 and 2014 (PAC Reference Number: R65/1/INFO3, R65/1&2/INFO4, R65/1/INFO6 and R64/1/INFO13), EPD had consistently changed the estimated remaining serviceable lives of the three landfills in Hong Kong. In this regard, the measures to improve the accuracy of such estimations, and the latest estimation of the remaining serviceable lives of the three landfills;**

Reply:

The estimated serviceable lives of the landfills depend on a wide range of factors including population growth, level of economic and construction activities, implementation of waste reduction initiatives, provision of other upstream waste treatment facilities, development of landfill design, mode of landfill operation and implementation of landfill extension projects. As most of the contributing factors are dynamic in nature, the estimated serviceable lives of the landfills should be reviewed from time to time, having regard to the latest available information. This accounted for the necessary changes in the estimation upon review during the different stages of submissions to the EA Panel from 2008 to 2014.

2. With the funding approval of the LegCo on the SENT Landfill Extension and NENT Landfill Extension in December 2014, it is anticipated that the increased serviceable lives of the three landfills would cope with the ultimate waste disposal need for the territories up to late 2020s. The estimated serviceable life of the WENT Landfill upon its extension would only be available upon completion of the relevant consultancy study.

- (x) **In view of the deficiencies identified in the Audit Report, such as the over-estimation of MSW-recovery rates, the lack of statistics on collected recyclables being disposed of a landfills and the under-estimation of serviceable lives of the three landfills, whether consideration would be given to revising the strategies and planning on the management of MSW, including the reduction, recovery, recycling and treatment and disposal of MSW. If yes, please provide the relevant details. If no, please provide the reasons.**

Reply:

In the 2013 Blueprint, we have set out comprehensive strategies to achieve the single target of MSW waste disposal rate on a per capita basis by 40 per cent in 10 years' time. The waste disposal rate will be measured at our waste disposal facilities every year and will serve as a reliable indicator on whether we are able to achieve the target. Timely and effective implementation of the various measures set out in the Blueprint would contribute to the target of reducing MSW waste disposal. As regards Audit's questions on the compilation of statistics on waste recovery and estimation of the serviceable lives of the three landfills, the detailed responses above have explained the rationale of our methodologies and the enhancement to be introduced.

2. While the 2013 Blueprint has only been implemented for a few years, we have been constantly reviewing our waste management policies and initiatives to ensure they are responsive to new challenges posed by society development, keep pace with public aspirations and are timely and adequate to address the needs of industry practitioners.

- (y) Details of the long-term planning study of waste disposal infrastructure commenced in September 2015 as mentioned by the Acting Secretary for the Environment in paragraph 16 of her opening remark at the public hearing on 7 December 2015.**

Reply:

Even upon the implementation of all waste reduction at source/reuse/recycling measures as set out in the Action Blueprint and Food Waste Plan, there would still be a considerable amount of residual solid waste requiring disposal of at landfills. As the existing and currently planned waste management facilities, including Integrated Waste Management Facilities phase 1, organic waste treatment facilities and landfill extensions, would not be able to deal with all the waste sustainably in future, there is a need to carry out a study to identify additional strategic and regional waste treatment and bulk waste transfer facilities for the management of solid waste to reduce reliance on landfills for waste disposal and to meet Hong Kong's longer term requirements.

2. We commissioned a study for planning of future waste management and transfer facilities (the Study) in September 2015. The main objective of the Study is to formulate, develop and produce a territory-wide plan and strategy on the provision of waste treatment and bulk waste transfer facilities for handling solid waste in an environmentally acceptable, sustainable and cost-effective manner to meet Hong Kong's sustainable development needs. The Study will identify additional strategic and regional waste facilities required for bulk transfer and treatment of MSW and construction waste in line with smart city and circular economy concepts, draw up an outline action programme and develop the relevant planning guidelines for the identified waste facilities.

3. The Study will explore a variety of issues, including types and requirements, technology choices, optimal scales, spatial distribution, siting principles, site requirements, selection criteria, procurement options, potential broad geographical areas and indicative timing of the additional waste treatment and bulk waste transfer facilities. The additional waste facilities identified shall meet the following board objectives:

- (a) maximizing resources recovery from waste;
- (b) optimizing synergy of waste management technologies and land use, including the co-treatment of MSW with other types of waste and the potential provision of waste facilities in cavern/underground or co-location of waste facilities in multi-storey building;
- (c) minimizing disposal of untreated MSW at landfills; and
- (d) minimizing the need of vehicular traffic for transportation of waste.

4. According to the current programme, the Study is expected to complete in the second quarter of 2017.

Public Accounts Committee
Supplementary Information from the Census and Statistics Department

(a) Measures taken by the Census and Statistics Department to enhance the accuracy of import and export recyclable statistics –

The Census and Statistics Department (C&SD) has implemented the following measures since April 2014 to facilitate declarants of domestic exports of waste plastics to understand declaration requirements and relevant definitions with a view to lodging trade declarations of domestic exports and re-exports properly :

1. C&SD, in collaboration with the Customs and Excise Department and the Environmental Protection Department, arranged five thematic workshops during April 2014 to April 2015 for traders and recyclers of waste plastics. During the workshops, guidelines on export declaration requirements of waste plastics were provided to the participants (about 70 representatives from around 60 traders and recyclers).
2. In addition, the Government also held another thematic workshop in November 2015. Seven representatives from six traders and recyclers attended.
3. C&SD has implemented the enhanced quality check procedures since April 2014 by selecting a sample of trade declarants of domestic exports of waste plastics. The sampled declarants need to provide supplementary information on the declared waste plastics, including whether the waste plastics are recovered locally or processed from imported waste and type of processing in Hong Kong. The procedures are to confirm that the declarants clearly understand the definition of domestic exports and re-exports and use the correct Hong Kong Harmonized System code for declaration.

(b) The estimated statistical error of the data collected for the compilation of recyclable statistics before and after the implementation of the improvement measures in (a) above in April 2014 –

According to the results of the enhanced quality check procedures on domestic exports of waste plastics, in the 2nd quarter of 2014*, around 10% of the domestic exports of waste plastics should be re-exports. In the 3rd quarter of 2015, the corresponding percentage was less than 1%. This reflects that the measures implemented since April 2014 have been effective in enabling traders of domestic exports of waste plastics to clearly understand the definition of domestic exports and re-exports and correctly declare domestic exports and re-exports.

* Statistics were available after the implementation of the enhanced quality check procedures

Public Accounts Committee
Consideration of Chapter 1 of the Director of Audit's Report No. 65
Government's efforts in managing municipal solid waste

Measures taken by C&ED to enhance the accuracy of import and export recyclable statistics

<u>Content in the Audit Report</u>	<u>Measures taken by the Customs and Excise Department (C&ED)</u>
<p><u>Paragraph 2.34</u></p> <p>The Secretary for the Environment and the Director of Environmental Protection should:</p> <p>(a) in collaboration with the Commissioner for Census and Statistics and the Commissioner of Customs and Excise:</p> <p>(i); and</p> <p>(ii) strengthen actions to enhance the accuracy of import and export recyclable statistics and take remedial actions where warranted;</p>	<ul style="list-style-type: none"> ● To facilitate trade declarants' understanding and compliance with the export declaration requirements for recycled plastic materials, C&ED, in collaboration with the Census and Statistics Department (C&SD), has issued additional guidelines on trade declarations since April 2014. ● Between April 2014 and November 2015, C&ED, in cooperation with C&SD and the Environmental Protection Department (EPD), organized 6 thematic workshops on "How to complete and lodge import / export declarations" for recyclable plastics recyclers. These workshops aim to ensure declarants have a good grasp of the definitions for "domestic export" and "re-export" as well as providing guidelines for declarants on a unified standard for completion of trade declaration; including "Origin Country", "Goods Descriptions" and "Hong Kong Harmonized System Codes". Altogether 81 representatives from 65 companies had attended the workshops.
<p><u>Paragraph 2.37</u></p> <p>The Commissioner of Customs and Excise agrees with the audit recommendations in paragraph 2.34(a). He has said that:</p>	<ul style="list-style-type: none"> ● In 2016, C&ED will continue, in cooperation with C&SD and EPD, organizing regular thematic workshops for traders and recyclers in each quarter. Future workshops will extend to cover recyclable paper and metal, apart from recyclable plastic. The forthcoming workshop is scheduled for February 2016.

<u>Content in the Audit Report</u>	<u>Measures taken by the Customs and Excise Department (C&ED)</u>
<p>(a) the C&ED will strengthen actions to educate traders to provide accurate import and export recyclable statistics; and</p> <p>(b) the C&ED may initiate prosecution against any person who knowingly or recklessly lodges any declaration that is inaccurate in any material particular.</p>	<ul style="list-style-type: none"> ● C&ED will work together with C&SD to strengthen the verification of the information on export declarations by randomly selecting trade declarants of domestic exports of recyclable plastics and requiring them to provide supplementary information on the declared recyclable plastics, including whether the recyclable plastics are recovered locally or processed from imported recyclable materials and type of processing in Hong Kong. C&ED will investigate all irregularities cases referred by C&SD. ● C&ED will initiate prosecution against any person who knowingly or recklessly lodges any declaration that is inaccurate in any material particular.

Public Accounts Committee

Chapter 1 of the Director of Audit's Report No. 65 Government's Efforts in Managing Municipal Solid Waste

This note sets out the Government's response to the letter from the Clerk to the Public Accounts Committee dated 25 November 2015.

(a) *waste disposal and recycling statistics for 2014;*

2. Please refer to the report on monitoring of solid waste in Hong Kong 2014 available at <https://www.wastereduction.gov.hk/sites/default/files/msw2014.pdf>

(b) *according to paragraph 2.42 of the Audit Report, in May 2011, the Environmental Protection Department ("EPD") informed the Legislative Council that plastic shopping bags ("PSB") Phase 1 had been implemented successfully, and that based on two landfill surveys 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 and personal-item stores) disposed of at the landfills had decreased from 657 million in 2009 to 153 million in 2010 (77% reduction). In this regard, please provide the following –*

(i) *method(s) used by EPD landfill contractors to estimate the number of pertinent PSBs disposed of at landfills in the landfill surveys;*

3. The two disposal surveys were conducted at landfills and refuse transfer stations ("RTSs") as part of EPD's annual waste composition surveys of municipal solid waste ("MSW"). In carrying out the surveys, a sampling plan was first drawn up in accordance with the established statistical principles such that the survey contractor would draw random samples from MSW transported by waste collection vehicles to the landfills or RTSs for disposal. Contents in each sample would then be manually sorted by waste types into different containers. For instance, PSBs found in a given sample would be put inside containers specifically used for plastic waste. Each container would be separately weighed for the purpose of compiling relevant waste composition statistics.

4. As the next step, PSBs would be further sorted manually. Field workers would by visual observation determine the category of retailer

outlets from which a bag was originated. There were ten broad categories namely: (i) supermarkets, (ii) convenience stores, (iii) personal items (e.g. medicare and cosmetic) stores, (iv) bakeries and cake shops, (v) department stores and home accessories shops, (vi) cooked food outlets, (vii) books, stationeries, gifts and novelties shops, (viii) fashion and footwear shops, (ix) electrical and telecom shops and (x) newspaper and magazine stores. PSBs that could not be sorted into these ten categories would be grouped under the “others” category. Please refer to the **Annex** for photos showing the manual sorting field work in a previous disposal survey.

5. Subsequently, for each category, the PSBs collected would be counted and their weight would be measured. Upon completion of the counting for all samples, the whole set of data would be used to estimate the total annual number of PSBs (with breakdown by retail category) disposed of at the landfills.

6. The above methodology has been consistently used in similar surveys conducted since 2009. The relevant LegCo Subcommittee was briefed on the survey methodology in 2009 during the scrutiny of the Product Eco-responsibility (Plastic Shopping Bags) Regulation. The Panel on Environmental Affairs (“EAP”) was also briefed on the same in April 2009. More recently, EAP Members were generally content after they visited an RTS and observed the carrying out of the field work of the disposal survey in 2013.

(ii) *guidelines(s) issued by EPD, if any, for its landfill contractors to follow in making the estimation in item (i) and above; and*

7. Detailed methodology concerning waste sampling, manual sorting, weighing and recording etc. were specified in the contract documents for the survey contractor who must follow such methodology as a mandatory contractual requirement. Appropriate training was provided to frontline field workers. Apart from briefing, real case examples were given to better illustrate how they were expected to categorize the PSBs by identification of their visible features. The survey contractor deployed supervisory staff to provide on-site guidance to the field workers and exercise quality control. EPD inspectorate staff were also present throughout the field work period to ensure that the surveying processes were properly carried out.

- (iii) *the Administration's views on the accuracy of such data from the landfill surveys in reflecting the effectiveness of the first phase of the producer responsibility scheme on PSBs.*

8. On the whole, the disposal surveys were designed to meet an overall margin of error of around 10% at a 95% confidence level, which by professional statistical standards means that the survey results (including the total disposal of PSBs) are valid.

9. In the Audit Report, observations were made that the number of “pertinent PSBs” found at landfills from the disposal surveys was significantly greater than that of PSBs distributed by registered retailers at registered outlets based on their returns. In response to these observations, we have informed Director of Audit that a registered retailer under PSB Phase 1 must submit a quarterly return providing information on, amongst other things, the total number of PSBs provided directly or indirectly to customers in each of his registered retail outlets during the reporting period. However, for the reasons as set out in paragraph 2.50 of the Audit Report¹, we are unable to compile statistics on the number of PSBs belonging to registered retail outlets from the disposal surveys. The Bills Committee for the Product Eco-responsibility (Amendment) Bill 2013 deliberated extensively on the limitations in making reference to the disposal surveys in assessing the number of PSBs being distributed at point of retail sales.

10. Notwithstanding the limitation as indicated in paragraph 9 above, we consider that the number of PSBs disposed of at the landfills is still the most relevant indicator on the effectiveness of the environmental levy in reducing the use of PSBs.

Environmental Protection Department December 2015

¹ In gist –

- (a) some “pertinent PSBs” found in disposal surveys belonged to supermarkets, convenience stores or personal-item stores of non-registered retailers; and
- (b) “pertinent PSBs” found in disposal 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.

Field Work of Disposal Survey for Plastic Shopping Bags



Workmen manually sorting PSBs from a randomly-drawn sample of MSW unloaded from a waste collection vehicle at the South East New Territories Landfill.

Reply to PAC further questions on MSW (letter dated 17 Dec 2015)

Recovery of municipal solid waste

- (a) with reference to paragraph 3.39(b) and 3.40 of the Audit Report, the progress on the publishing of the number of housing estates and the corresponding population which have provided the Environmental Protection Department (“EPD”) with statistics on recyclables collected and those not providing the statistics;**

Reply:

When we recruit housing estates and residential buildings to join the Source Separation of Waste Programme (SSW), apart from helping them to install recyclable separation bins and encouraging their residents to practice source separation, we would also request them to join the annual competition/ Commendation Scheme on SSW by returning monthly statistics on the amount of recyclables collected.

2. We have been publishing the list of all participating housing estates/ buildings on the Hong Kong Waste Reduction Website. We will also publish on the website the number of housing estates/ buildings and the corresponding population which have provided us with the statistics. As the two lists are publicly available, we do not consider it necessary to publish a separate list singling out those housing estates not providing the statistics under a voluntary programme which aims to incentivize participation. Nevertheless, we will strengthen efforts to encourage participating housing estates/buildings to provide us with the relevant statistics. The list of all participating housing estates/ buildings and the figures about estate number and population returning the statistics will be updated regularly. To facilitate the public reading the information, we will amend the website page layout and put the information on the “News & Events” page. We plan that the revised website page and the figures be ready and published starting from April 2016.

- (b) with reference to paragraph 3.39(c) and 3.40 of the Audit Report, the progress on computing and publishing the per-household-per-day quantities of recyclables collected by the**

participating estates which have provided EPD with statistics on recyclables collected; and

Reply:

As we have indicated above, we conduct the annual competition/ Commendation Scheme on SSW and assess the performance of the estates/ buildings by the returned monthly statistics on the amount of recyclables collected. The Commendation Scheme result, in a list of award-winning housing estates/ buildings, is also published on the Hong Kong Waste Reduction Website.

2. The average per-household-per-day quantities of recyclables collected by the estates/ buildings are reflected by the awards they have obtained, i.e. a participating estate or building would be given one of the following awards if its recovered domestic waste reached some thresholds:

- (i) Diamond Award — equal to or greater than 30 kg/household/month;
- (ii) Gold Award — equal to or greater than 22 but less than 30 kg/household/month;
- (iii) Silver Award — equal to or greater than 17 but less than 22 kg/household/month;
- (iv) Bronze Award — equal to or greater than 10 but less than 17 kg/household/month; and
- (v) Certificate of Merit — less than 10 kg/household/month;

3. We will consider ways to disclose the per-household-per-day quantities of recyclable waste collected by participating estates/buildings without diminishing the original intent of incentivizing good waste reduction behavior or affecting the overall participation rate of a voluntary programme.

4. As a first step, we will consider publishing regularly an “overall average per-household quantities of recyclables collected for the programme”. Together with the information on number of housing estates and corresponding population returning statistics, we plan to have the overall average per-household quantity figure be published

on the Hong Kong Waste Reduction Website, on the “News & Events” page, starting from April 2016.

Way forward

- (c) **Estimation of the remaining serviceable lives of the three landfills is one of the most important factors in considering the Administration’s funding applications for environmental projects, such as landfill extension, waste-to-energy facilities and organic waste treatment facilities, etc., by Legislative Council Members. As such, any variation in the estimation of the remaining serviceable lives of the three landfills will affect the overall waste management strategies and the priority and the timetable of implementing the relevant projects. In view of the inadequacies identified in the Audit Report on the estimation of the remaining serviceable lives of the three landfills and EPD’s latest estimation, whether the Administration would develop a new blueprint setting out the revised waste management strategies, in particular whether additional resources and manpower would be allocated to enhancing the reduction and recycling of MSW.**

Reply:

The underlying thinking of the Blueprint for Sustainable Use of Resources 2013-2022 (the Blueprint) is to tackle waste problems from a resource re-circulation perspective. As part of waste reduction, we encourage the public to reuse and recycle as far as possible. Unavoidable waste will be turned into energy by modern technology while disposal at landfills will be the last resort. To measure the effectiveness of the comprehensive package of waste reduction measures set out in the Blueprint, we have adopted a single target of reducing the MSW waste disposal rate on a per capita basis by 40 percent by 2022. The accuracy and reliability of the waste statistics related to waste disposal is beyond doubt as they are based on factual weighbridge data recorded at entrances of waste treatment facilities. Other factors such as the fluctuations in waste recovery rates and the estimation of the serviceable lives of the three landfills would not diminish the impact of the various waste reduction measures, nor the waste reduction target set out in the Blueprint.

2. In the coming years, we will endeavour to implement the Blueprint and appeal to the public for support to achieve the targeted results. While the Blueprint has only been implemented for a few years, we have been constantly reviewing our waste management policies and initiatives to ensure they are responsive to new challenges posed by societal development, keep pace with public aspirations and are timely and adequate to address the needs of the industry. We would brief the EA panel on the progress and initial achievements of our waste management measures promulgated in the Blueprint in 2016 when the waste statistics for 2015 is available.

本署檔號
OUR REF: () in EP CR 9/10/48
來函檔號
YOUR REF: CB4/PAC/R65
電話
TEL. NO.: 3509 8643
圖文傳真
FAX NO: 2136 3304
電子郵件
E-MAIL:
網址
HOMEPAGE: <http://www.epd.gov.hk>

**Environmental Protection Department
Headquarters**

16/F, East Wing,
Central Government Offices,
2 Tim Mei Avenue,
Tamar, Hong Kong



環境保護署總部
香港添馬添美道2號
政府總部東翼16樓

11 January 2016

(by fax: 2543 9197)

Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

(Attn: Mr. Anthony CHU)

Dear Mr. CHU,

**Public Account Committee
Consideration of Chapter 1 of the Director of Audit's Report No. 65**

Government's efforts in managing municipal solid waste

Thank you for your letter dated 30 December 2015 on the captioned. We would like to set out the Administration's reply below for Members' reference.

2. The Environment Bureau published the Hong Kong: Blueprint for Sustainable Use of Resources 2013-2022 (the Blueprint) in May 2013 which analyses the challenges and opportunities of waste management in Hong Kong. It also maps out a comprehensive strategy, targets, policies and action plans for waste management for ten years with a view to tackling the waste problems in Hong Kong.

3. While a comprehensive waste management plan is being implemented, we have adopted an overall target of reducing the Municipal Solid Waste (MSW) disposal rate on a per capita basis by 40 percent by 2022 to serve as a measurable focal point for our efforts. The underlying assumptions for Hong Kong to achieve the disposal rate reduction target have been set out in the Blueprint (page 18).

4. Achieving the MSW disposal rate reduction target set out in the Blueprint would largely be contingent upon the implementation of various waste reduction measures in particular the completion of Phases 1 and 2 of OWTF, the effectiveness of the Food Wise Campaign in changing the community's food consumption behavior, and the implementation of the MSW charging by 2022. Fluctuations in waste recovery rates in recent years and the estimation of the serviceable lives of the three landfills would not affect the waste reduction target set out in the Blueprint, nor diminish the impact of the various waste reduction measures.

Calculation and dissemination of waste information

5. Nevertheless, we agree with the Director of Audit's finding that there is a need to strengthen our efforts in improving the accuracy of the statistics on locally-generated recyclables and the MSW recovery rates. Since 2014, we have joined hands with the Census and Statistics Department and the Customs and Excise Department to implement measures to enhance data collection for calculation of recovery rates. We note that the recovery rates have stabilized in recent years, at the level of 37 percent in both 2013 and 2014. We are confident that the enhanced quality checks on export declarations are effective in preventing the mis-reporting of re-exports of plastic recyclables as domestic exports, so that the domestic exports statistics on plastic recyclables are accurate and reliable. We will remain vigilant in monitoring the trend.

6. As for the estimated serviceable lives of the landfills, the PAC may wish to note that the Audit Report had not found that the estimated serviceable lives of the landfills had been overstated or incorrectly provided by the Administration. The Director of Audit only noted that EPD had not provided quantifiable information on the basis and the underlying assumptions for estimating the serviceable lives of the landfills and recommended that the Administration should provide LegCo with quantifiable information and the

assumptions made in estimating the remaining serviceable lives of landfills in seeking funding approval for landfill extension works in future. We agree with the Audit's recommendation and have pledged to do so in the future.

7. We would like to emphasize that the Administration had provided best available information to LegCo during the process of seeking funding approval for the landfill extension and Integrated Waste Management Facilities projects. LegCo had conducted close scrutiny of the funding proposals over the course of three years before giving funding approval to the proposals. We have provided all of the information sought by LegCo Members including the Administration's approach in estimating the remaining serviceable lives of landfills (please refer to our reply to question (u) in ~~EPD's letter of 21 December 2015 (Paper: R65/1/GEN5)~~ ^{Appendix 8}). While we will continue to adopt multi-pronged approach in achieving a sustainable use of resources as set out in the Blueprint, it will still be necessary to develop adequate waste disposal facilities which remain an essential and ultimate part of the waste management chain. The development of waste disposal infrastructure requires considerable lead time and we need to ensure that adequate infrastructure is put in place on a timely basis. As said before, we will endeavor 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.

Constant review of the Blueprint

8. While the Blueprint has only been implemented for a few years, we have been constantly reviewing our waste management policies and initiatives to ensure they are updated and responsive to new challenges posed by societal development, keep pace with public aspirations and are timely and adequate to address the needs of the industry.

9. To echo the Director of Audit's recommendation that the Administration should publicize waste disposal problem and challenges faced by Hong Kong with a view to gaining public support, we plan to brief the LegCo Panel Environmental Affairs about the updated progress and initial achievements of our waste management measures promulgated in the Blueprint in 2016 when the waste statistics for 2015 is available.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'James Chan', written in a cursive style.

(James CHAN)

for Director of Environmental Protection

c.c.

Commissioner of Customs and Excise (fax no. 2854 1959)

Commissioner for Census and Statistics (fax no. 2119 0160)

Secretary for Financial Services and the Treasury (fax no. 2147 5239)

Director of Audit (fax no. 2583 9603)

**The Public Accounts Committee's Public Hearing on "Reduction and recycling of food waste" (Chapter 2)
of the Director of Audit's Report No. 65
on 12 December 2015**

Opening Remarks by the Secretary for the Environment

Chairman,

Introduction

The Environment Bureau (ENB) and the Environmental Protection Department (EPD) attach great importance to food waste management and look forward to the support and participation of the Legislative Council (LegCo) and the community, including government departments and public institutions, to implement the relevant initiatives effectively. We agree with the recommendations of the Audit Commission regarding the reduction and recycling of food waste. The followings are my responses to some major issues.

Government's past efforts in the reduction of food waste

2. First of all, I would like to give a brief review on the Government's past efforts in the reduction of food waste. Since 2005, the Government has put forward various measures and projects on the reduction and treatment of food waste in the policy papers on waste treatment, which include:

- (a) The “Policy Framework for the Management of Municipal Solid Waste (2005-2014)” published in 2005 proposed to recover about 500 tonnes of food waste generated from commercial and industrial (C&I) activities through source separation of food waste for biological treatment, such as composting and anaerobic digestion. Since then, the Government has implemented various pilot schemes promoting on-site food waste treatment and planned for the development of Organic Waste Treatment Facilities (OWTFs) Phase 1 and 2. For promoting on-site food waste treatment, ENB and the Education Bureau jointly invited all schools in the territory to sign a Green Lunch Charter, which encourage them to stop using disposable containers and adopt on-site meal portioning where possible to reduce food waste. The Environment and Conservation Fund (ECF) would provide subsidies for exiting schools to install the necessary equipment, while the standard design of new schools will cater for the mode of on-site meal portioning. Moreover, there are the Food Waste Recycling Projects in Housing Estates, which subsidise private housing estates to source separate food waste for recycling to useful compost, and at the same time educate the public to reduce food waste. As for the planning of the OWTFs, the funding for the development of OWTF Phase 1 was approved by the LegCo Finance Committee (FC) in October 2014. The contract was awarded by EPD in mid-December 2014, and the facility is anticipated to commence operation in 2017. The environmental impact assessment and engineering feasibility study of OWTF Phase 2 were completed in end of 2013 and

2015 respectively. The tender preparation works are being conducted, and we intend to invite tender in 2016.

- (b) ENB has reported the progress of the relevant work in detail by submitting the paper “Updated background brief on management of municipal solid waste in Hong Kong” to the LegCo Panel on Environmental Affairs (EA Panel) in April 2009 and January 2011, as well as in the paper “Reduce, recycle and proper waste management” in March 2012.
- (c) In May 2013, ENB published the “Hong Kong Blueprint for Sustainable Use of Resources (2013-2022)”. Besides the various measures proposed earlier, the document also emphasises the importance of food waste reduction, the Food Wise Hong Kong Campaign (FW Campaign) and the OWTFs.
- (d) In February 2014, ENB published “A Food Waste and Yard Waste Plan for Hong Kong (2014-2022)” (the Food Waste Plan) which sets out four main strategies as the backbone to tackle the food waste challenge, namely reduction at source, food donation, food waste collection, and turning food waste into energy, with a target of reducing food waste disposal to landfills by 40% in 2022.
- (e) Since July 2014, the Environment and Conservation Fund (ECF) has been funding non-profit organisations (NGOs) in the recovery of surplus food for distribution to the needy in the community. The funded activities include collection of surplus and edible food from markets, retail shops and food

wholesalers. As of October 2015, the ECF has approved a total of 10 such projects with funding support of about \$15 million for the collection of around 950 tonnes of surplus food in two years, and donation to 700 000 headcounts.

3. The above shows that over the past decade, the Government has adopted a progressive approach in implementing various measures for enhancing community mobilisation and education, facilitating different sectors in practising food waste reduction and source separation, as well as fostering behavioural changes, so as to get ready for the large-scale food waste recycling activities in future. Building on the efforts made and experience gained in the past years, the current-term Government has further consolidated the relevant strategies and measures, with the Food Waste Plan launched last year to provide a clear and holistic approach and strategy for its future work.

Collaboration among government departments

4. The implementation of food waste reduction and recycling requires the concerted efforts of the C&I sector, educational bodies, relevant government departments and the general public. The FW Campaign has progressed from the initial launching stage to an expansion stage. We now focus on expanding the on-going major projects to further encourage public and community participation in food waste reduction. The Campaign will then enter a deepening stage with a view to further instilling a behavioural change, etc. We are rolling out a number of activities and initiatives, such as distributing and promoting the Good Practice Guides to the C&I sector to reduce the generation of food waste, launching the Food Waste (FW)

Charter Scheme and the Food Wise Eateries Scheme, placing APIs and advertisements, opening a Big Waster Facebook account and lending out the Big Waster mascot to appear at major events, distributing publicity materials, organising roving exhibitions in districts, providing food wise training workshops and talks, etc. Different stakeholders can determine the way and level of participation having regard to their own situation. We totally agree that government departments should play a leading role by setting a good example and actively participating in the FW Campaign. Signing the FW Charter is one, but not the only one of the ways for government departments to express their support. Departments can determine their actual way of participation based on their own circumstances. In fact, ENB and EPD have maintained liaison and cooperation with the relevant government departments. Through different channels, they have participated in various activities on food waste reduction and recycling, such as involving in the Food Wise Hong Kong Steering Committee to help the Committee devise the Good Practice Guides for different sectors, implementing measures on food waste reduction in departments. We will continue to encourage the relevant departments to participate in the FW Campaign, including signing the Charter as far as practicable. Out of the 12 departments mentioned in the Audit Report, ten have already signed the Charter. Some departments are in the role of a venue manager rather than a food waste producer. In that case, the Government will encourage these departments to implement food waste reduction by other suitable means, such as providing technical advice and other appropriate support to their tenants on food waste reduction.

5. ENB and EPD will continue to pursue more vigorously various components of the FW Campaign, including inviting more bureaux/departments, government-subsidised NGOs and private

organisations to sign the FW Charter, and promptly providing any necessary assistance to those interested in signing the Charter.

Quantities of food waste in recent years

6. It is mentioned in the Audit Report that the quantity of food waste disposed of increased from 1.18 million tonnes in 2004 to 1.33 million tonnes in 2013 (a 13% increase). I would like to point out that the increase mainly came from the food waste generated by the C&I sector. During this period, Hong Kong's annual Gross Domestic Product has increased from \$1,317 billion to \$2,132 billion (a 62% increase), and the annual number of visitors has increased from 22 million to 54 million (a 145% increase). These objective factors indicate that Hong Kong has experienced economic growth in this period, which to some extent resulted in an increased pressure from the food waste generated by the C&I sector.

7. Despite the continuous increase in economic activities and number of visitors in Hong Kong, the total amount of food waste disposed of in 2014 (about 1.329 million tonnes) did not show further increase as compared to 2013. Over the past two years, there has been noticeable change in the awareness and behaviours in the community, e.g. the habit of taking food home after meals or more participation of the C&I sector in food donation, etc. We will keep up our efforts in promoting further reduction in food waste among various sectors according to the strategies and course of action set out in the Food Waste Plan.

Development of food waste treatment and recycling facilities

8. In treating food waste, the Government has adopted a multi-pronged approach with focus on waste reduction at source to address the problem of disposing most of the food waste at landfills. The unavoidable food waste will be recovered and recycled as far as possible. We commissioned the Kowloon Bay Pilot Composting Plant (Pilot Plant) in August 2008 as the first educational and pilot project. Meanwhile, we also utilised the capacity of the Pilot Plant to launch the Food Waste Recycling Partnership Scheme (the Partnership Scheme), in collaboration with the C&I sector in June 2010, under which the source separated food waste was delivered to the Pilot Plant for recycling. Furthermore, we have also provided training and good food waste management guides for the frontline and management staff participating in the Partnership Scheme, so as to gain experience in source separation and collection of food waste, as well as to get fully prepared for large-scale food waste collection upon completion of the OWTFs.

9. It is also stated in the Audit Report that the actual treatment quantity of the Pilot Plant was significantly lower than the maximum capacity of 4 tpd of food waste from the C&I sector. I would like to respond to the issues of the trial process, actual experience and the nature of the Partnership Scheme as follows.

- (a) The Pilot Plant was the first pilot facility that EPD set up to work jointly with the C&I sector on promoting food waste reduction and source separation. The deliverables aimed at gathering experience and information on the collection and treatment of organic waste thus facilitating future food waste recycling when the large-scale OWTFs for C&I sector were

ready for commissioning in accordance with the plan in the 2005 Policy Framework in December 2005. These objectives were presented to the LegCo EA Panel on 27 April 2009 and 29 March 2010. As an educational and trial facility, the Pilot Plant was of a modest scale and adopted the aerobic composting technology that does not require complex engineering work. Furthermore, the actual quantity of source separated food waste sent to the Pilot Plant from the participating restaurants, markets and food manufacturers fluctuates depending on the daily operations and resources for practicing source separation.

- (b) The 4-tpd of source-separated food waste figure as stated in the EA Panel papers referred to total capacity of organic waste (including food waste, bulking agents (e.g. bark chips and saw dust) and premature compost) that the Pilot Plant could handle. The addition of bulking agents and premature compost was required to achieve the composting of food waste though the exact proportion of them to food waste was subject to trial. Given the focus of the Pilot Plant is to deal with “food waste”, the paper referred to “food waste” instead of making differentiation between food waste and organic waste, the latter includes food waste, bulking agents and premature compost. The contract between the Electrical and Mechanical Services Trading Fund and its contractor specified that the total treatment capacity of the Pilot Plant was 4 tpd (including bulking agents). In retrospect, it would have been more appropriate to use the term “organic waste” when referring to the treatment

capacity of this demonstration plant.

10. We will strengthen our existing efforts to encourage more C&I establishments to participate in the Partnership Scheme. We are now exploring with the Food and Environmental Hygiene Department (FEHD) to launch a pilot scheme at FEHD's markets to conduct pro-active food waste collection services which facilitate stall owners to place source-separated food waste into designated collection bins at designated times without having to leave their stalls. We will also reach out to more individual restaurants, hotels and shopping malls to engage their participation, and provide technical support, guidelines and training to the C&I sector to facilitate their effective implementation of food waste reduction, source separation and recycling.

11. Moreover, the construction of a private treatment facility at the EcoPark with a daily maximum capacity of 100 tonnes was completed. Funding for the government-built OWTF Phase 1 was approved by the LegCo in October 2014. The facility with a daily maximum capacity of 200 tonnes of food waste is under construction and is expected to commence operation in 2017. OWTF Phase 2 with a daily maximum capacity of 300 tonnes of food waste is located at Sha Ling in the North District. Its environmental impact assessment and engineering feasibility study were completed. Tender invitation of the project will commence in mid-2016. Meanwhile, we will keep in view the development of various technologies and researches, and consider incorporating successful experience into our future food waste management projects.

Cost estimate for new works projects

12. It is revealed in the Audit Report that the Government has under-estimated the project cost in developing OWTF Phase 1 and should make improvement when implementing a works project in future.

13. I wish to point out that OWTF Phase 1 was the first-of-its-kind waste facilities in Hong Kong and there was no applicable cost-reference data, which allowed us to come up with an accurate cost estimate for the project. In our briefing to the EA Panel in November 2010, we already indicated in the discussion paper that the parallel-tendering approach would be adopted so that the Government could finalise the figures based on the tender prices received when submitting the proposal to the Public Works Subcommittee (PWSC) and the FC for seeking funding approval. As to why there is an increase in cost estimate for the project, we have fully explained and discussed the matter in the discussion paper submitted to the EA Panel in March 2014, as well as in the PWSC meeting in April 2014 and the FC meetings in July and October 2014.

14. In December 2014, we successfully awarded a design-build-operate contract for OWTF Phase 1. It has provided significant cost estimate reference data for future OWTF projects to allow the Government to come up with a more accurate cost estimate. As indicated in the Audit Report, we will take appropriate measures to ensure that significant work requirements are included in a consultancy agreement, and endeavour to make a reasonable cost estimate so that the Government can earmark sufficient funding for the project.

Conclusion

15. Looking ahead, we will take all practicable steps to expedite the implementation of the measures set out in the 2014 Food Waste Plan.

16. The food waste treatment facility in Siu Ho Wan, Lantau Island, with a maximum treatment capacity of 200 tpd will be a particularly important facility for Hong Kong. The facility is scheduled for completion in 2017, and will come under public attention. In view of this, we are currently liaising with the business sector, gearing up for collaboration to make good use of the food waste treatment facility in Siu Ho Wan.

17. In parallel, we will continue to pursue more vigorously various components of the FW Campaign, consolidate the good experiences and practices of various parties, including the FW Charter signees, and share with them the experiences and practices through the network of the FW Campaign.

18. Chairman, ENB and EPD welcome comments from Members on the contents of the Audit Report and the Government's work on food waste reduction. My colleagues and I are also pleased to answer questions from Members to keep the Committee abreast of the progress of our work. Thank you, Chairman.

-END-

本署檔號
OUR REF: () in EP CR 9/10/48
來函檔號
YOUR REF: CB4/PAC/R65
電話
TEL. NO.: 3509 8645
圖文傳真
FAX NO: 2136 3304
電子郵件
E-MAIL:
網址
HOMEPAGE: <http://www.epd.gov.hk>

**Environmental Protection Department
Headquarters**

16/F, East Wing,
Central Government Offices,
2 Tim Mei Avenue,
Tamar, Hong Kong



環境保護署總部
香港添馬添美道2號
政府總部東翼16樓

13 January 2016

Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

(Attn: Mr. Anthony CHU)

Dear Mr. CHU,

**Public Account Committee
Consideration of Chapter 2 of the Director of Audit's Report No. 65**

Reduction and Recycling of Food Waste

In response to your letter dated 30 December 2015, the Administration would like to provide the requested information for Members' reference.

Yours sincerely,

(Ms Vivian CHAN)

for Director of Environmental Protection

Encl.

- c.c. Secretary for the Environment (fax no. 2537 7278)
- Secretary for Education (fax no. 2810 7235)
- Chief Executive, Hospital Authority (fax no. 2576 5050)
- Commissioner of Correctional Services (fax no. 2583 9307)
- Director of Housing (fax no. 2761 6700)
- Director of Food and Environmental Hygiene (fax no. 2524 1977)
- Secretary for Financial Services and the Treasury (fax no. 2147 5239)
- Director of Audit (fax no. 2583 9063)

Reply to PAC on further questions on Food Waste

Recycling of food waste

- (a) **with reference to paragraphs 2.88(h) and 2.91 of the Audit Report, a copy of the guidelines to schools on methodologies of measuring food waste quantities, and whether the Environmental Protection Department (“EPD”) would, in collaboration with the Education Bureau, consider organizing workshops for schools to explain the methodologies of measuring food waste quantities;**

Reply:

Schools approved with ECF funding to implement on-site meal portioning (OMP) are required to provide food waste quantities before and after adopting OMP. As part of the conditions for approving the funding, ECF Secretariat required schools to provide information on food waste reduction after implementation of the OMP. For this purpose, we have issued guidelines on methodologies of measuring food waste quantities in the food waste survey form these schools since July 2011, the version we issued in July 2011 is at **Annex A**. As part of our green school lunch promotion efforts, EPD, in collaboration with EDB, will arrange sharing sessions with schools on the successful implementation of OMP. The methodologies of measuring food waste quantities will be explained in the sharing sessions.

- (b) **with reference to paragraph 3.18 and 3.25 of the Audit Report, the extracts of the relevant provisions in the two consultancy agreements made in August 2008 and July 2012 respectively in relating to the Organic Waste Treatment Facility (“OWTF”) Phase 1 project on protecting the Government’s interests against unsatisfactory performance of the Consultant;**

Reply:

There was only one consultancy agreement No. CE 7/2008(EP)

made under the OWTF Phase 1 project. The additional services referred to in paragraph 3.25 were conducted by the same consultant under a supplementary agreement and all provisions under the main agreement apply to the additional services. .

The relevant provisions under the main agreement No. CE 7/2007(EP) and the supplementary agreement on protecting the Government's interests against unsatisfactory performance of the Consultant are extracted below:

Clause 22 of the General Conditions of Employment of Engineering & Associated Consultants for a Feasibility Study issued to Consultant A on 8 August 2008

- (A) The Consultants shall exercise all reasonable professional skill, care and diligence in the performance of all and singular the Services and, in so far as their duties are discretionary, shall act fairly between the Employer and any third party.*
- (B) The Consultants shall, in respect of any work done or information supplied by or on behalf of the Employer, report to the Director's Representative any errors, omissions and shortcomings of whatsoever nature of which the Consultants become aware in the performance of the Services.*
- (C) The Consultants shall indemnify and keep indemnified the Employer against all claims, damages, losses or expenses arising out of or resulting from any negligence in or about the conduct of and performance by the Consultants, their servants or agents, of all and singular the Services.*
- (D) In the event of any errors or omissions for which the Consultants are responsible and as a result of which the re-execution of the Services is required, the Consultants shall, without relieving any liability and obligation under the Agreement, at their own cost re-execute such Services to the satisfaction of the Director's Representative.*

Clause 5 of the Supplementary Agreement issued to the Consultant A in July 2012

5. *No Release Provision*

5.1 *By agreeing with and making payment to the Consultants for these Additional Services, the Employer does not:*

- a) release the Consultants from any liability to the Employer (including any claim for costs), or*
- b) waive any claim or action (including any claim for costs) the Employer may have against the Consultants*

in any way connected with the Project as defined in the Agreement whether for breach of the terms of Consultancy Agreement No. CE 7/2008 (EP), negligence, breach of duty or otherwise, howsoever and whensoever arising.

- (c) **with reference to paragraphs 3.20 and 3.21 of the Audit Report and paragraph 6(b) of the Financial Circular No. 2/2009 “Initiating Works-related Tendering and Consultants Selection Procedures Before Funding is Secured” (Enclosure 1 of R65/2/GEN3), a copy of the risk assessment report prepared by EPD on the risks involved in initiating a procurement exercise before funding was secured for the OWTF Phase 1 project;**
- (d) **correspondence between EPD and the Environment Bureau (“ENB”) to seek the approval of the latter on conducting a parallel tendering for OWTF Phase 1 project;**

Reply to (c) and (d):

In deliberating on the appropriate tendering approach, we had assessed the risks involved in initiating a procurement exercise before funding was approved in accordance with the Financial Circular (FC) No. 2/2009. When we reported to the Legislative Council Panel on Environmental Affairs (EA Panel) in April 2009 on the updated progress of the Policy Framework for the Management of Municipal Solid Waste (2005-2014) issued in 2005 (Paper No. CB(1) 1357/08-09(03)), the proposal for developing the OWTF Phase 1 was discussed and no adverse comment was received. To assess and address the public specific concerns on the selected site for the proposal, we adopted a continuous public involvement process with the two relevant District Councils, Tsuen

Wan District Council and Islands District Council, throughout the planning and development stages, together with site visits organised in early 2010. Upon completion of Environmental Impact Assessment (EIA) study of the project in early 2010, we presented the scope of work to and further consulted the Tsuen Wan District Council and Islands District Council on the EIA findings on 26 January 2010 and 8 February 2010 respectively. The two District Councils expressed support of the OWTF Phase 1 project. We therefore considered that the risk for facing negative reaction leading to Government to abort the tender due to lack of funding or substantive last-minute changes to the scope of the proposed works low. In addition we considered that as the proposed OWTF would be the first of its kind in Hong Kong, there would be high degree of uncertainty in its cost estimates. Parallel tendering was recommended to provide reliable cost estimates before funding approval from Legislative Council was sought.

In August 2010, we obtained approval from the Secretary for the Environment for initiating parallel tendering for the OWTF Phase I project in accordance with the Financial Circular (FC) No. 2/2009. The relevant document is attached in **Annex B**.

EPD's intention to adopt parallel tendering approach was presented in the EA Panel Submission in November 2010 (Paper No. CB(1) 461/10-11(04)).

- (e) **with reference to paragraph 3.25 of the Audit Report, the reasons for instructing the Consultant to carry out additional services relating to the re-tender exercise for the OWTF Phase 1 project at a lump-sum fee of \$1.8 million and the scope of service under this agreement;**
- (f) **A summary of features/items that are added to the tender document in 2013 for the OWTF Phase 1 project as compared with that of the Tender exercise in 2011;**

Reply to (e) and (f):

After the cancellation of the first tender exercise for the OWTF Phase 1 project in public interest in 2012, we needed to explore

***Note by Clerk, PAC:** *Please see Appendix 23 of this Report for Annex B.*

practicable measures to address the main causes of the unreasonably high returned tender prices, with a view to identifying appropriate revisions to the tender documents and initiating the re-tendering process. It was therefore necessary to instruct Consultant A to carry out additional services relating to the above via a supplementary agreement.

The scope of additional services under this supplementary agreement includes:

- (a) Review, explore, evaluate and recommend practicable measures to improve cost-effectiveness and lower the capital and recurrent costs of the Project having regard to the market feedback from the outcomes of the cancelled tender exercise ;
- (b) Liaise, carry out and complete all necessary statutory and administrative processes to enable inclusion of the agreed measures recommended in (a) above in order to confirm their acceptability for inclusion in the re-tendering exercise;
- (c) Prepare the revised tender documents for the Project based on the agreed measures recommended in (a) and (b) above; and
- (d) Carry out the re-tendering exercise, conduct screening and evaluation of tenders, negotiate with tenderers, recommend the qualifying tenders and prepare the Tender Recommendation Report as stipulated in the original Brief.

A summary of key features/items for inclusion of updated and modified requirements to the tender documents in 2013 for OWTF Phase 1 project as compared to that of the Tender exercise in 2011 is provided in **Annex C**.

- (g) **with reference to the difference between the capital cost of the proposed works for OWTF Phase 1 of \$1,532.8 million and the initial indicative estimate of \$489 million, a breakdown on the increase in cost;**

***Note by Clerk, PAC:** Please see Appendix 24 of this Report for Annex C.

Reply:

It should be noted that as stated in the LegCo EA panel paper in November 2010, the main purpose of the submission was to brief members on the background and scope of the OWTF Phase 1 and inform members that the Administration would proceed with tendering for the design-build-operate contract of this project, and subject to the tender outcome, the Government intended to seek the funding approval of the Finance Committee. It was stated in the same paper that the Government would finalize the project estimate (i.e. the indicative estimate of \$489 million) based on the tender return and include the cost breakdown prior to the submitting the proposal to the Public Works Sub-committee (PWSC) for consideration. It was not the purpose of the 2010 November submission to LegCo EA Panel to define a reliable project estimate at that stage. As committed in the above EA Panel paper in November 2010, as soon as we completed the retendering exercise in January 2014, we reverted to the EA Panel in March 2014 (CB(1)1074/13-14(01)) before PWSC submission. As explained in paragraph 14 of the EA Panel paper in March 2014, the initial estimate presented in the 2010 paper was an indicative figure based on an initial, broad-brush scheme. The main reasons for the differences between the latest project cost and the initial indicative estimate include:

- (i) significant increases in the costs of capital works projects in recent years since 2010;
- (ii) in detailed designs, additional provisions were identified to provide 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 include the provision of pre-treatment facilities to render the food waste suitable for anaerobic digestion; increased waste water treatment requirements; and increased waste treatment and office floor areas to meet operational requirements;

- (iii) as a result of a detailed site condition study, natural terrain and slope protection cum mitigation works have been proposed. Additional environmental mitigation and monitoring measures have also been identified to meet the recommendations in the environmental impact assessment study;
- (iv) design of the combined heat and power generators and associated control system for export of surplus electricity could only be finalized after the amount of surplus electricity available for export has been ascertained in the detailed design of the treatment facility; and
- (v) consultants' fees for contract administration and remuneration of resident site staff.

As the initial estimate at \$489 million given was no more than an indicative figure based on an initial broad-brush scheme whereas the project estimate of \$1,532.8 million was the result of an open and competitive tender in 2013 upon completion of detailed reference design and site specific requirements, it is not appropriate to compare the difference in costs.

- (h) with reference to paragraph 3.28(c) of the Audit Report, the reasons for requesting the Consultant to carry out the natural terrain hazard study in an additional cost of \$0.8 million and the scope of service under the agreement;**

Reply:

The reasons for requesting the consultants to carry out natural terrain hazard study are as follows:

- (a) It was noted that a natural terrain hazard study and any appropriate mitigation measures, if found necessary, should be carried out as part of the proposed development when the proposed Permanent Government Land Allocation (PGLA) for this project was circulated for comment in June 2011.

While awaiting the Lands Department to finalize the engineering conditions for the PGLA, it was considered necessary to instruct the Consultant to carry out the natural terrain hazard study (NTHS) to assess the requirements of the slope and natural terrain protection works.

- (b) The Consultant had been involved in the Agreement since 2008 and was responsible for studying the feasibility of the project. Their extensive knowledge of the project would enable timely completion of the NTHS without the need to familiarize with the project background and to review the engineering feasibility study reports, EIA report and original tender documents again. This arrangement could also minimize the time taken for the study and ensure better study coordination.

The scope of service under this agreement includes:

- a. background information search for natural terrain and related disturbed terrain;
- b. detailed aerial photograph interpretation;
- c. preliminary field reconnaissance;
- d. detailed field mapping (include boulder survey);
- e. recommendation for any necessary ground investigation (GI) works;
- f. detailed natural terrain hazard study, including collate and interpret GI results, establish engineering geological model / map, develop natural terrain hazard model / map, conduct debris runout modeling / rockfall analysis, and assess and quantify potential natural terrain hazards;
- g. propose plausible natural terrain hazard mitigation options;
- h. prepare Natural Terrain Hazard Study Report;
- i. prepare tender documents and drawings for any necessary GI works, prepare GI works order, and provide GI supervision and liaise with Geotechnical Engineering Office of Civil Engineering Development Department;
- j. project management/liaison/coordination & meeting with external parties; and

- k. submit a Natural Terrain Hazard Study Report for the Project. The Report shall cover all the works, findings and recommendations required by items (a) to (k) above.

The cost of the additional service to be charged by the consultants was a lump sum fee of \$796,000. The cost estimation was based on the time charges rates of the Fee Proposal of the captioned consultancy agreement and the manpower inputs submitted by the Consultant A. Given the large catchment area of the study and the scope of work listed above, it was considered reasonable to utilize the recommended level of manpower for this study. Based on the manpower requirements recommended by Consultant A, the scope of service, the man-hour charge rates, the cost of the additional service were assessed as reasonable and acceptable.

- (i) **according to paragraph 3.15(a) of the Audit Report, OWTF Phase 1 would treat 200 tonnes per day (“tpd”) of food waste. At the public hearing on 29 December 2015, the Director of Food and Environmental Hygiene and Assistant Director (Natural Conservation and Infrastructure Planning) of EPD mentioned that EPD had estimated that 40 tpd of food waste would be collected and delivered from 36 wet markets managed by the Food and Environmental Hygiene Department (“FEHD”) to OWTF Phase 1 in mid-2017. Also according to paragraph 3.37, EPD envisaged in 2010 that 85.6 tpd and 114.4 tpd food waste to be delivered to OWTF Phase 1 would be provided by FEHD wet markets and private sector respectively.**

(i) specific measures to be taken by ENB in collaboration with the Food and Health Bureau to assist FEHD in achieving the above target of 40 tpd of food waste to be collected and delivered from the 36 wet markets to OWTF Phase 1 in mid-2017;

(ii) specific measures to be taken by ENB and EPD to ensure that the remaining 160 tpd of food waste is collected and delivered to OWTF Phase 1 for treatment upon its commissioning in mid 2017, in particular whether the

Administration would provide incentives to encourage the delivery of source-separated food waste to OWTF Phase 1 for treatment;

Reply:

EPD is liaising with FEHD to explore the possibility of conducting the pro-active food waste collection at the 36 wet markets identified. In order to increase the amount of food waste to be collected, the proposed proactive mode of operation allows the stall operators to dispose of source-separated food waste (SSFW) at a designated time, without the need to leave their stalls. EPD will also conduct educational and promotional work in parallel to encourage the stall operators to develop their practices for food waste separation at source.

To ensure the pro-active food waste collection could be implemented smoothly at the time of commissioning of OWTF Phase 1, EPD will work in collaboration with FEHD to conduct a 6-month trial, starting from early 2016, at two of FEHD markets, i.e. North Kwai Chung Market and Po On Road Market and its associated cooked food centre. The contractor for this trial is required to collect SSFW pro-actively from all stall operators in the markets and cooked food stalls at least twice per day during off peak hours and record the quantity of SSFW collected at each round of collection. The collected SSFW will be delivered to the Kowloon Bay Pilot Composting Plant for treatment. The experience gained from this trial would be beneficial to both EPD and FEHD in formulating practicable arrangement for enabling source separation of food waste by the stall operators and effective food waste collection at the wet markets, and delivery to treatment facility therein. The data collected will also be useful for examining total collectable food waste from FEHD's markets and its cooked food centres, as well as the required resources and funds for proceeding with this pro-active operation. We will discuss with FEHD on the funding and resource arrangements for collection and delivery of source-separated food waste to the OWTF Phase 1.

Apart from our current liaison with FEHD, we will continue to

liaise with other government departments (disciplined services, LCSD and quasi-government units, such as Hospital Authority and Universities, etc.) on this issue.

With respect to the food waste generated from the commercial and industrial (C&I) establishments, we do not see the need for EPD to arrange at government's cost a collection service to collect and deliver the food waste from the C&I sectors to the OWTF Phase 1 as it is their current responsibility to deliver the food waste as part of the MSW to the current disposal facilities (either to refuse transfer stations or landfills). For those C&I establishments in the OWTF Phase 1 catchment, there is potential for them to save some transportation cost, while enhancing their environmentally friendly image that may help attract environmentally conscious customers. Our plan is for C&I establishments to be responsible for separating their food waste from their other MSW and deliver the separated food waste to the recycling facilities. As the future MSW charging scheme will apply to all MSW including food waste being disposed at landfills and other waste disposal facilities, it would be useful for the trade to start early preparation to learn and build up their experience for source separation of food waste for disposal at the OWTF-1 which will be considered as a recycling facility.

EPD is liaising closely with various stakeholders and waste collectors to promote source separation and delivery of food waste to OWTF Phase 1 upon its commissioning, with particular focus on different key sectors (such as restaurant trade, developers of shopping malls, hotel trade, food factories, etc.) within the catchment of the OWTF Phase 1. We will provide technical support, guidelines and the associated trainings for the trades/sectors. We have also engaged a service contractor to facilitate the communication between C&I sectors and the waste collectors to implement food waste reduction, source separation, collection and transportation, etc. We are liaising with over 230 establishments to explore logistic arrangement for delivering food waste to OWTF Phase 1.

In parallel with the implementation of waste charging, we are

considering various measures to encourage the C&I sectors for encouraging them to source separate and deliver food waste to OWTF Phase 1, including recognition measures for the participants' efforts of those who are prepared to deliver food waste to OWTF 1 through publicity events to be attended by stakeholders and senior government officials, such as publicity on our web and facebook and the food wise platform, certificates/marks/logos etc. for displaying at their establishments, and issuing certificate showing carbon credit on the amount of food waste delivered to OWTF 1 for treatment.

We would continue to consider other appropriate measures taking into account the feedback from the liaison with the trades. The target remains that the food waste amount to be delivered to the OWTF Phase 1 will be able to meet its operational requirements at the early operational stage. The amount will then gradually grow to achieve its maximum design capacity of 200 tpd.

(j) **According to paragraph 3.40(b) of the Audit Report, EPD has engaged a service contractor to liaise with the commercial and industrial 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. In this regard, please provide the following details:**

- (i) **scope of service to be provided by the service contractor;**
- (ii) **tendering process, such as the type of tender and the number of tender proposals received;**
- (iii) **duration of the contract**
- (iv) **fee(s) payable under the contract;**
- (v) **background information on the service contractor, including its relevant experience;**

Reply:

- (i) In November 2014, EPD commenced a 32-month service contract for a contractor to engage private C&I sectors in source separation and delivery of food waste to the OWTF

Phase 1. The scope of the service includes:

- (a) launch educational and publicity activities to enhance the awareness of the C&I sectors in good food waste reduction and management practice;
 - (b) arrange large-scale publicity campaigns to introduce the Scheme and prepare the associated publicity materials;
 - (c) liaise with relevant associations such as the Hong Kong Productivity Council, Hong Kong Federation of Restaurants & Related Trades, Association of Restaurant Managers, the Association for Hong Kong Catering Services Management Ltd, Hong Kong Hotels Association, the Hong Kong Association of Property Management Companies, LINK and other agencies in C&I sectors to gain their support and encourage their members to participate in the Scheme;
 - (d) approach not more than 130 potential Scheme participants and solicit their agreement and commitment to deliver the collected source-separated food waste to the OWTF upon its commissioning in order to secure the 200 tpd of food waste required for the operation of the OWTF; observe and review the food waste management practice of each Scheme participant;
 - (e) organize a pledging ceremony, a prize giving ceremony and an experience sharing workshop to officiate the commencement of the Scheme, to promote participation, to recognize the contribution of the participants and to provide a platform for the participants to share their experience with the C&I sectors;
 - (f) design and produce pamphlets, posters and guidelines on food waste reduction, good management practice, source separation and recycling;
- (ii) In accordance with the Stores and Procurement Regulations, we initiated an invitation for quotations for the procurement of the relevant service contract in late 2011. Five potential service suppliers were invited for quotations. At the close of the invitation period, we received one quotation. The

quotation received was vetted and found to be fully compliant with the contract requirements. The contract was subsequently awarded to the service contractor in early 2012. The service contract commenced in November 2014 after FC approved the funding application of the OWTF Phase 1 project in October 2014.

- (iii) The concerned contract is a 32-month service contract with contract duration from November 2014 to June 2017.
 - (iv) The lump sum fee of the Contract is \$1.353M, and the Contractor shall be paid with satisfactory completion of deliverables in accordance with the payment schedule as stipulated under the Contract.
 - (v) The service contractor is a local environmental charitable organization founded in 1993. Since 2006, it has focused on raising public awareness on food waste in Hong Kong and has established close partnerships with different sectors such as shopping malls, schools and trade associations. From 2010 to 2014, the organization was also involved in service contracts for engaging C&I sectors in participating in EPD's partnership scheme for delivery of source separated food waste to Kowloon Bay Pilot Composting Plant and implementing district based publicity and education activities on food waste reduction, source separation, collection and delivery.
- (k) **according to para 3.54, the Government envisaged that 250,000 households would participate in separation of food waste by 2022. Please explain how the figure of 250,000 households is arrived at. Does the Government have any concrete plan(s) to encourage more households to participate in the separation of food waste;**

Reply:

As stated in (hh) of ~~the English version reply sent to PAC on 23 December 2015~~, *Appendix 16* the figure of 250,000 households as mentioned in

page 15 of the Food Waste Plan illustrated a possible scenario assuming OWTF Phases 1, 2 and 3 could be built by 2022 as assumed in the 2014 Food Waste Plan. It was estimated on the basis of the spare capacity available from the three organic waste treatment facilities (a total capacity of about 800 tpd) to be built by 2022 after deducting the capacity needed for the C&I food waste, and then dividing it by the assumed average food waste per household per day.

Please note that the above is just crude estimation and the actual number of households that would participate in food waste recycling would depend on a number of assumptions and the collaboration with the community and C&I sector, including the amount of food waste generated by the C&I sector in 2022 and the % of collectable food waste, etc.

To encourage more households to participate in the separation of food waste, the Food Wise Hong Kong Campaign will work hard to mobilize all stakeholders and the public. The Government also supported a number of food waste recycling programmes through the Environment & Conservation Fund, or implemented by the Housing Authority, to encourage and promote source separation of food waste. It is also anticipated that food waste separation would be increased progressively in scale when Municipal Solid Waste Charging is in place.

Source :

- *Page 23 of “A Food Waste & Yard Waste Plan in Hong Kong : 2014 – 2022”*
- *Monitoring of Municipal Solid Waste in Hong Kong 2011*
<https://www.wastereduction.gov.hk/sites/default/files/msw2011.pdf>
- *Hong Kong Monthly Digest of Statistics, April 2012*
http://www.census2011.gov.hk/pdf/Feature_articles/Trends_Pop_DH.pdf

- (I) **whether you agree that the Government’s actions taken before the publication of the “A Food Waste and Yard Waste Plan for**

Hong Kong (2014-2022)” to address the food-waste problem were piecemeal, and that the progress and achievement of the actions taken so far to address this problem have not been satisfactory;

- (m) a table setting out the progress of the Government’s actions in reducing food waste production and disposal at landfills in accordance with the “A Food Waste and Yard Waste Plan for Hong Kong (2014-2022)”.**

Reply to (l) and (m):

While “A Food Waste and Yard Waste Plan for Hong Kong (2014-2022)” (Food Waste Plan) serves as an effective means to communicate with the public on the Government’s commitment and comprehensive strategy to tackle food waste, a number of the actions and measures were initiated and launched before the promulgation of Food Waste Plan. These measures and actions include, among others, the launch of Food Wise Hong Kong Campaign in 2013, the private food waste treatment facility at EcoPark, and the planning & implementation of OWTFs. Please also see ~~our Reply to PAC dated 23 December 2015~~ (question (a) and Chart B) for more information. *Appendix 16*

We have been implementing the above actions step by step in a progressive manner. These past efforts are by no means “piecemeal” as they have been taken forward in line with the strategies and action items set out in the 2005 “Policy Framework on Municipal Solid Waste Management” which covered food waste as well, and the “Hong Kong Blueprint for Sustainable Use of Resources 2013-2022”. These efforts served to achieve the action plans and target set out in the Food Waste Plan.

Please see the below table on the progress of major measures listed in the Food Waste Plan.

**Progress of Major Measures listed in Figure 6 of
the Food Waste Plan**

Major Measures	Latest Progress
A private facilities e.g. EcoPark	<ul style="list-style-type: none"> ● A private food waste recycling facility with a capacity of about 100 tonnes/day located at EcoPark was commissioned in 2015.
OWTF Phase 1	<ul style="list-style-type: none"> ● Following the funding approval of OWTF Phase 1 on 24 October 2014, we awarded the contract in December 2014 for commissioning the facilities with a capacity of 200 tonnes/day in 2017.
Food Wise Hong Kong Campaign	<ul style="list-style-type: none"> ● The Food Wise HK Campaign was launched in 2013. ● Please see the progress of various measures and programmes as given in our Reply to PAC dated 23 December 2015 (question (g)). <i>Appendix 16</i>
OWTF Phase 2	<ul style="list-style-type: none"> ● The Environmental Impact Assessment and Engineering Feasibility Study for OWTF phase 2 have been completed. ● The project with a capacity of 300 tonnes/day is anticipated to commence tendering in mid-2016 with a view to commencing operation by 2020. With this programme, we plan to seek funding approval from the LegCo for OWTF phase 2 in 2017.

OWTF Phase 3	<ul style="list-style-type: none"> ● A site in Shek Kong has been earmarked for OWTF phase 3 with a capacity of 300 tonnes/day. ● We will take forward its EIA and Engineering Feasibility Study in 2016, with a view to commencing its operation by 2022.
Further OWTF (Phase 4 & 5)	<ul style="list-style-type: none"> ● We are liaising with the relevant departments and will continue to look for suitable sites for the development of the remaining OWTFs and keep an open mind on the site selection and development mode.
Other Food Waste Reduction/Recycling Initiatives	<ul style="list-style-type: none"> ● To prepare for large scale food waste recycling in future, we have also implemented a number of schemes to raise public's awareness on food waste reduction, and to promote the practice of source separation to facilitate food waste collection and recycling in future. <ul style="list-style-type: none"> - Food Waste Recycling in Public Rental Housing Estates: Further to the previous trial food waste recycling schemes implemented by HD under the community environmental education programme, HD and EPD are liaising on future food waste reduction/recycling programmes. - Food Waste Recycling in Private Housing Estates: Up to December 2015, 41 funding applications have been approved to support food waste reduction and on-site

	<p>recycling.</p> <ul style="list-style-type: none"> - Food Donation: Up to December 2015, The Environment and Conservation Fund has approved about \$15 million to ten NGOs to help them to organize recovery of about 950 tonnes of surplus food for distribution to some 700,000 headcounts. - Food Waste Recycling Partnership Scheme: Since commencement of the programme in June 2010, over 190 C&I premises and their front-line staff had become familiar with the practices of collection and source-separation of food waste, and over 2,000 tonnes of food waste are collected.
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致：環境保護署（經辦人：林美如女士）（傳真號碼：2872 0389）

學校參考編號：_____

環保午膳及廚餘報告表（20__ / __ 學年）

獲批環境及自然保育基金的學校（未安裝 / 已安裝*現場派飯設施）* 請刪除不適用者

請提供相關資料，並在適當的方格內加上✓號。（只需提供學生資料，並不包括教職員用膳資料。）

- 本校名稱：_____

本校現有班級及學生人數：_____ 級 _____ 班，共 _____ 人

聯絡人姓名及職位：_____

電話號碼：_____ 電郵：_____
- 本校學生留校午膳的人數：

☐ 有。約_____人
- 本校學生留校午膳的方式包括：

☐ 由學生自備，約 _____ 人

☐ 由飯商供應，約 _____ 人；飯商是：_____（請回答第 4 題）

☐ 在小食部購買，約_____ 人；並由同一飯商經營：☐ 是 ☐ 否
- 由飯商供應的部份，包括以下的組合：（下列午膳模式的飯盒份數總和，應當相等於第 3 題填寫飯商供應的總飯盒份數。）

☐ 現場派發飯菜，在飯堂進食並使用可重複清洗及再用的飯盒，_____ 份

☐ 現場派發飯菜，在課室進食並使用可重複清洗及再用的飯盒，_____ 份

☐ 使用耐用度高，並可重複清洗使用的可再用飯盒，_____ 份

☐ 使用可回收再造的 PP 飯盒，_____ 份；飯盒回收商是：_____

☐ 使用其他即棄飯盒（一般為紙、錫紙或發泡膠所造），_____ 份
- 本校學生留校午膳時，

☐ 不會使用即棄餐具 ☐ 會使用即棄餐具
- 本校每天產生的廚餘約 _____ kg，佔供應給學生的食物約 _____ %（量度方法，請參考背頁）

[註：廚餘佔供應學生食物的百分比：（每天總廚餘量 ^{（項目 6b）} ÷ 供應食物總量 ^{（項目 6a）}）x 100%
- 本校現時減少廚餘的方法：_____
- 本校在改行現場派發飯菜後進一步減少廚餘的方法：_____

- 報告未完，請轉背頁 -

學校參考編號: _____

請就報告第 6 項提供補充資料，並在適當的方格內加上✓號。

6a. 飯商供應給學校的食物量

1. 飯盒部份：

- ☐ 有。大盒食物淨重 _____ g； _____ 份 ☐ 沒有
小盒食物淨重 _____ g； _____ 份

(可自行抽樣量度或向飯商查詢)

2. 現場派發飯菜部份：

- ☐ 有。每份食物淨重 _____ g ☐ 沒有

(可自行抽樣量度或向飯商查詢)

6b. 每天產生的廚餘量

學校可透過午膳供應商或其他可行方法，量度最少連續五天的廚餘數據，然後填寫以下部份：

1. 飯盒部份：

- ☐ 有。平均每天的廚餘總重量 _____ kg ☐ 沒有

(量度方法：建議把廚餘與餐盒一起入袋磅秤，然後扣除餐盒的重量)

2. 現場派發飯菜部份：

- ☐ 有。平均每天的廚餘總重量 _____ kg ☐ 沒有

(量度方法：建議在清洗餐盆前，把廚餘分出，入袋及磅秤)

6c. 數據收集時間

本校在 _____ 至 _____ 期間收集上述數據

(建議根據餐單的重複週期，收集不少於五天的數據，然後取其平均值)

6d. 本校產生廚餘的成份，各佔總廚餘量的百分比：

- ☐ 五穀類食物 (例如：白飯、意粉、糙米飯、燕麥片等)，佔 _____ %
☐ 蔬菜類 (例如：葉菜、豆類、瓜類等)，佔 _____ %
☐ 肉類 (例如：牛、豬、雞、羊、魚等)，佔 _____ %
☐ 水果類 (例如：橙、蘋果、香蕉等)，佔 _____ %
☐ 其他，請列明： _____，佔 _____ %

報告完，謝謝。請根據基金申請確認信條款(八)列明的時間，把填妥的報告於未安裝設施前及安裝設施後傳真至 2872 0389 或電郵至 greenlunch@epd.gov.hk。如有任何疑問，請致電 2872 1705 與陳佩婷小姐聯絡。如有需要，我們將安排實地視察學校的午膳情況及廚餘的產生量。

***Note by Clerk, PAC: Chinese version only.**

本署檔號
OUR REF: () in EP CR 9/10/48
來函檔號
YOUR REF: CB4/PAC/R65
電話
TEL. NO.: 3509 8645
圖文傳真
FAX NO: 2136 3304
電子郵件
E-MAIL:
網址
HOMEPAGE: <http://www.epd.gov.hk>

**Environmental Protection Department
Headquarters**

16/F, East Wing,
Central Government Offices,
2 Tim Mei Avenue,
Tamar, Hong Kong



環境保護署總部
香港添馬添美道 2 號
政府總部東翼 16 樓

23 December 2015

Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

(Attn: Mr. Anthony CHU)

Dear Mr. CHU,

**Public Account Committee
Consideration of Chapter 2 of the Director of Audit's Report No. 65**

Reduction and Recycling of Food Waste

In response to your letter dated 15 December 2015, the Administration would like to provide the requested information for Members' reference.

Yours sincerely,

(Ms Vivian CHAN)

for Director of Environmental Protection

Encl.

- c.c. Secretary for the Environment (fax no. 2537 7278)
- Secretary for Education (fax no. 2810 7235)
- Chief Executive, Hospital Authority (fax no. 2576 5050)
- Commissioner of Correctional Services (fax no. 2583 9307)
- Director of Housing (fax no. 2761 6700)
- Director of Food and Environmental Hygiene (fax no. 2524 1977)
- Secretary for Financial Services and the Treasury (fax no. 2147 5239)
- Director of Audit (fax no. 2583 9063)

Reply to PAC on further questions on Food Waste

Reduction in food waste

- (a) **with reference to paragraph 1.5 of the Audit Report, the reason(s) for per-capita-per-day domestic food waste generation of Hong Kong was 85% higher than those of Taipei and Seoul in 2013, and the updated figures for 2014;**

Reply:

International experiences show that the most appropriate strategy and measures for food waste management for a city are governed by the socio-economic characteristics and the nature of economy of a particular city, the eating culture and habits as well as the institution and policy setting. Hong Kong is primarily a service economy with a strong tourist component and has only a very limited agricultural base to provide suitable outlets (e.g. animal feed or compost) for food waste. This is different from other cities (e.g. Taipei) with a relatively large agricultural base around the city providing an important outlet for food waste. Also other cities have put in place municipal waste charging in 1990s or early 2000s which has proven to be very effective in reducing waste generation. Given the differences in socio-economic characteristics and the different stage of the policy development, the food waste management practices among different cities therefore cannot be readily compared.

In line with the comprehensive strategy elucidated in the 2005 Policy Framework on Municipal Solid Waste Management, the Government has adopted a three-pronged approach with concurrent actions on

- (1) avoidance and reduction in food waste generation through education and awareness raising, (e.g. food waste reduction and recycling programmes with District Councils, Food Wise Hong Kong Campaign)
- (2) development of practices and experiences on source separating and recycling the unavoidable food waste to useful resources (e.g. food waste recycling partnership programme with the

commercial and industrial sector, on-site composters in schools/local communities by NGOs/government departments, food waste recycling projects in private housing estates, , and

- (3) the development of food waste treatment capacity (e.g. organic waste treatment facilities phase 1 and 2, the private sector food waste treatment facilities in the Ecopark).

Chart A and B below show the trend of food waste in Hong Kong since 2004, and the key actions and measures taken on education and awareness, promotion of at source separation and recycling, as well as preparation for treatment facilities on food waste treatment. It is worthy to note that the combined efforts of these actions and measures have helped to moderate or stabilise the rate of growth of food waste disposal despite the continuing rise in the economy and population in Hong Kong.

To consolidate the efforts and measures, we published the "A Food Waste and Yard Waste Plan for Hong Kong (2014-2022)" in February 2014 with a target of reducing food waste disposal at landfills by 40% in 2022. As an initial indication, the amount of food waste disposed of at landfills in 2014 was slightly reduced to 1.329 million tonnes, representing some 0.2% reduction in comparison with the 1.331 million tonnes in 2013. Using a per capital basis, it also represents a reduction of some 1.0%, from 0.508 kg/person/day in 2013 to 0.503 kg/person/day in 2014.

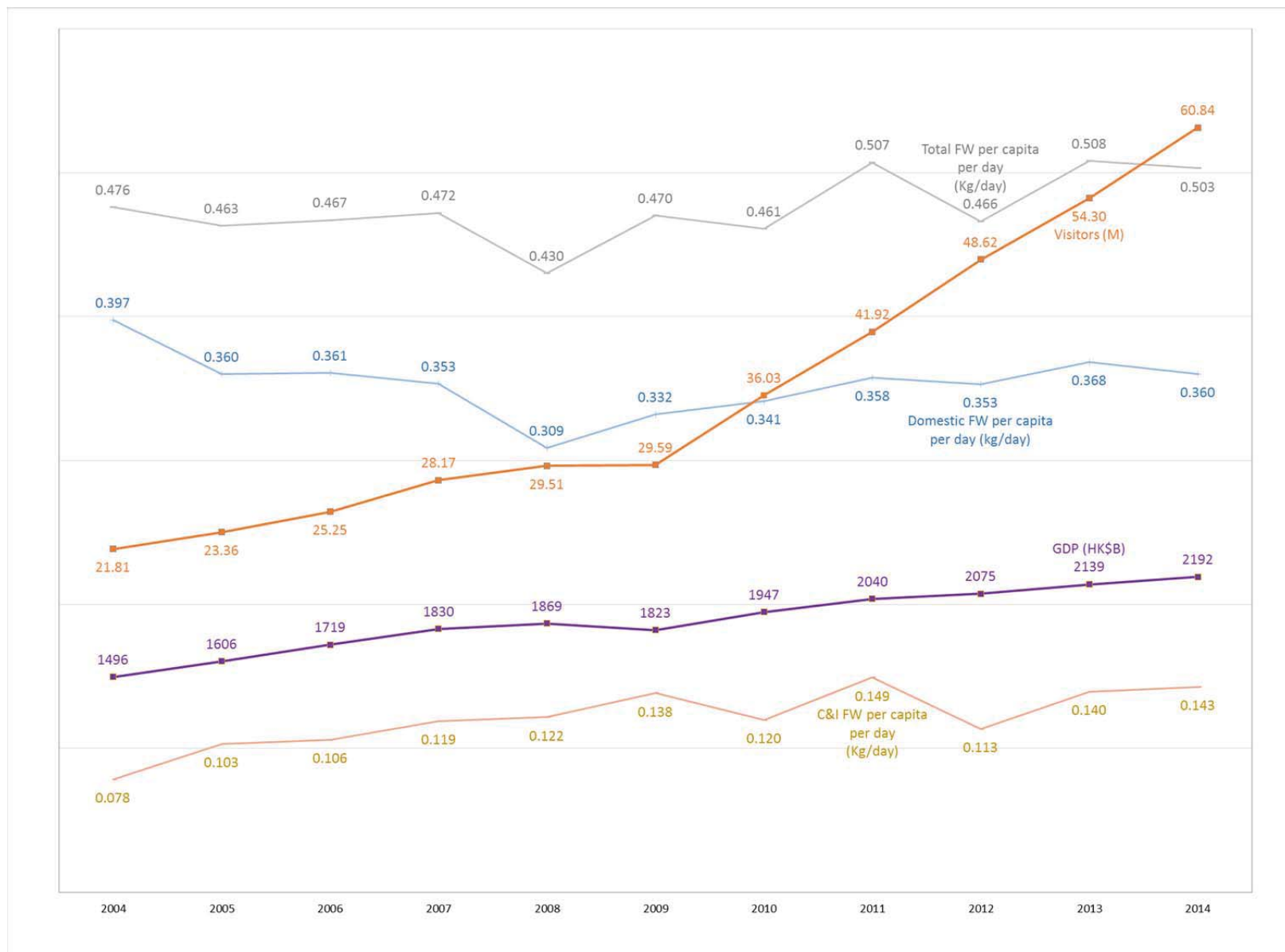


Chart A - The Trend of Food Waste in Hong Kong Since 2004

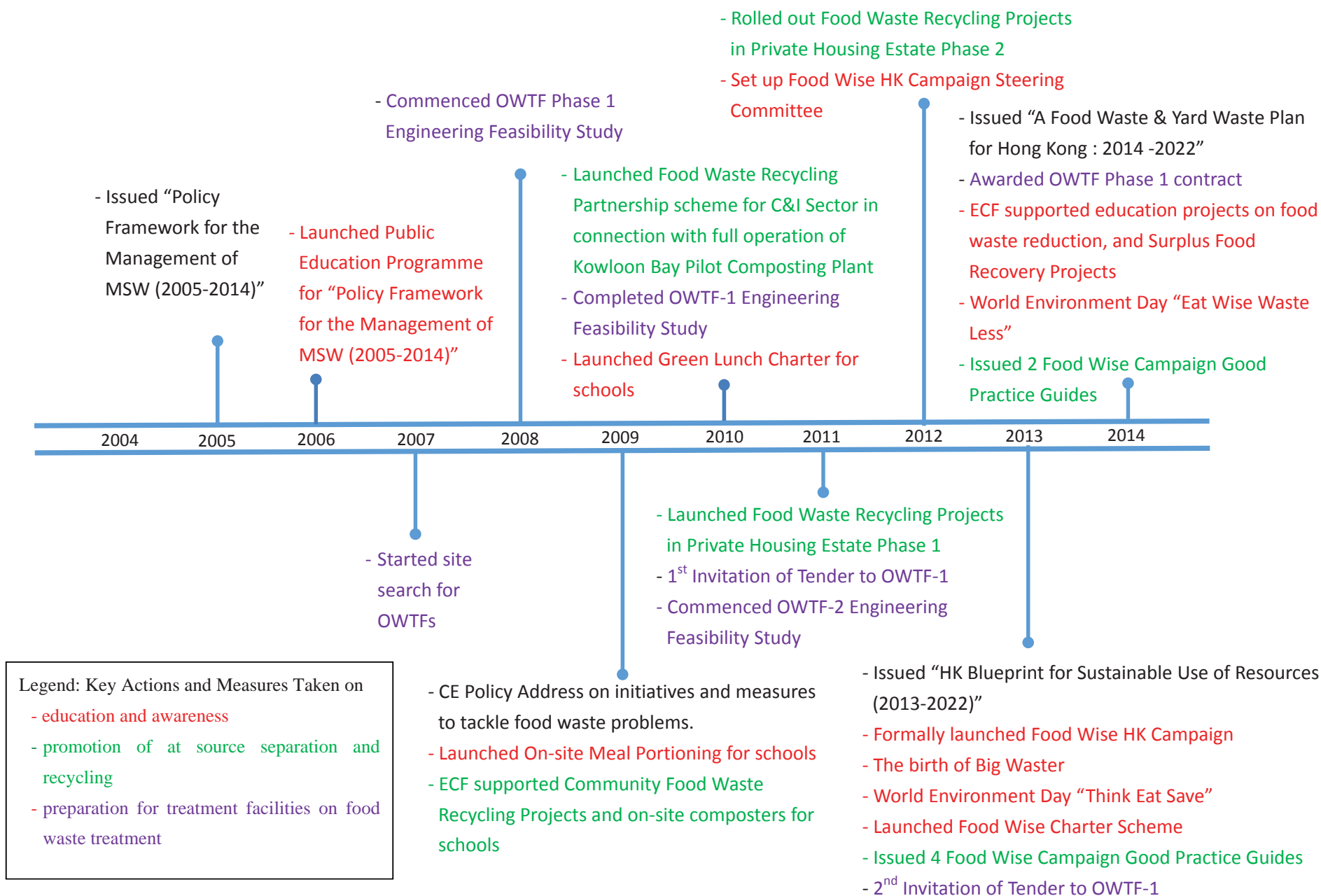


Chart B - Key Actions and Measures Taken on Food Waste

- (b) the way used by the Environmental Protection Department (“EPD”) to measure the quantity of food-waste disposal at landfills;**

Reply:

The quantities of disposal of Municipal Solid Waste (MSW) at landfills analyzed by waste type, in which food waste is a main component, are estimated by combining the waste disposal data recorded at weighbridge located at entrances of landfills, with the waste composition data obtained from EPD’s annual waste composition survey (WCS) of MSW conducted at landfills and Refuse Transfer Stations (RTSs) by contractors.

In carrying out the WCS, a sampling plan is first drawn up in accordance with the established statistical principles such that the survey contractor will draw random samples from MSW transported by waste collection vehicles to the landfills or RTSs for disposal. To take into account the seasonal effects, the WCS is conducted twice in a year, one in the first half of the year, the other in the second, and will draw a total number of 420 waste samples over a total period of 70 days. Contents in each sample will be put into a sampling box and will then be manually sorted by waste type (e.g. plastics, paper, glass, food waste, wood etc.) into different containers. Each of these containers will be separately weighed for the purpose of compiling waste composition data.

Upon completion of sorting and weighing for all samples, the whole set of waste composition data will then be combined with the weighbridge waste disposal data for estimating the disposal of MSW at landfills by waste type, in which food waste is the main component.

Detailed methodology concerning waste sampling, manual sorting, weighing and recording etc. are specified in the contract documents for the survey contractor who must follow such methodology as a mandatory contractual requirement. Appropriate training is provided to frontline field workers. The survey contractor will deploy supervisory staff to provide on-site guidance to the field

workers and exercise quality control. EPD inspectorate staff are also present throughout the field work period to ensure that the surveying processes are properly carried out.

On the whole, the WCS is designed to meet an overall margin of error of around 10% at a 95% confidence level, which by professional statistical standards means that the survey results are valid.

- (c) **according to paragraph 2.6(a) of the Audit Report, the “Policy Framework for the Management of Municipal Solid Waste (2005-2014)” set the target of reducing the quantity of municipal solid waste (including food waste) by 1% per annum up to 2014, using 2003 as the base year. However, according to Figure 3 in paragraph 2.11 of the Audit Report, from 2004 to 2013, the actual quantity of food-waste disposal had increased by 13% from 1.18 million tonnes to 1.33 million tonnes. Please explain why the increase in the quantity of food-waste disposal in this period, and the measures taken by EPD to tackle the food-waste problem during this period;**

Reply:

As stated in the Remarks in page 14 of the Audit Report, from 2004 to 2013 when the actual quantity of food waste disposal had increased by 13%, 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).

The domestic food waste disposal on a per capita basis has dropped from about 0.42 kg/person/day in 2003 (base year of 2005 Policy Framework) to about 0.36 kg/person/day in 2014, by about 14%. Within the same period, the C&I food waste has increased from about 0.08 kg/person/day to about 0.14 kg/person/day, showing some correlation with the increasing trend in GDP and the number of tourists to Hong Kong. For the period from 2005 to 2014, the total restaurant receipts in Hong Kong increased by some 29% in

real terms (according to the volume index of total restaurant receipts compiled by the Government). Taking an example for comparison with a neighboring Asian city (Singapore), the food waste disposal amount in Singapore has a growth rate of some 38 % during the past 7 years, from 0.28 kg/person/day in 2008 to 0.34 kg/person/day in 2014¹.

The Government has put forward proposals and action plans and has taken actions on food waste from 2005 and 2013 as shown in the following documents:

- In “A Policy Framework for the Management of MSW (2005-2014)” issued in 2005, section 108 already mentioned that 500 tpd of food waste from C&I Sector could be separately collected at source for biological treatment. During the period from 2005 to 2009, we have developed the Kowloon Bay Pilot Composting Plant to prepare for large-scale food-waste recycling in future; and initiated the site search, EIA and Engineering Feasibility Study for Organic Waste Treatment Facility (OWTF) Phase 1.
- In April 2009 and January 2011, ENB issued the LegCo EA Panel Paper “Update on the Progress of The Key Initiatives in the ‘Policy Framework for the Management of MSW (2005 – 2014)’ “which have reported the initiatives including the ECF support for on-site treatment, as well as planning and development of OWTF-1 and 2 with a total capacity of 500 tpd. During this period from 2009 to 2011, we have formed a partnership programme with key food waste generators in the C&I sector with a view to setting up the delivery and collection protocol so that their food waste generated can be delivered for treatment at OWTFs when commissioned; launched the Food Waste Recycling Projects in Housing Estates; completed the EIA for OWTF Phase 1.

¹ Source :

<http://www.nea.gov.sg/energy-waste/waste-management/waste-statistics-and-overall-recycling>

<http://www.zerowastesg.com/2013/04/01/singapore-waste-statistics-2012/>

<http://www.singstat.gov.sg/statistics/browse-by-theme/population-and-population-structure>

- In March 2012, ENB issued the LegCo EA Panel Paper “Reduce, Recycle and Proper Waste Management” and further updated the progress of various initiatives and plans. During this period from 2011 to 2013, we have carried out the pre-qualification and tendering for OWTF 1 (and the retendering for OWTF Phase 1 due to very high returned tender prices, hence enhancing the cost-effectiveness of the project); and initiated a further site search for more OWTFs in addition to OWTF Phases 1 and 2 what were already under planning.
 - The May 2013 Hong Kong Blueprint for Sustainable Use of Resources (2013-2022) also stressed the need to prevent and reduce food waste (page 16 of the Blueprint) and the importance of the Food Wise Campaign and OWTFs in the Action Blueprint, in addition to various plans mentioned in the earlier papers/documents. During this period from 2013 to late 2015, we have launched the Food Wise Hong Kong Campaign to raise awareness and enhance community support; completed the EIA and feasibility studies for OWTF Phase 2; discussed with the C&I sector on the delivery of food waste to OWTF1 and engaged a service contractor to facilitate the C&I sector to make arrangement for delivering food waste to OWTF1.
- (d) **according to paragraph 2.7 of the Audit, in the “A Food Waste and Yard Waste Plan for Hong Kong (2014 -2022) (“the 2014 Food Waste Plan”), the Environment Bureau (“ENB”), for the first time, set a target of reducing food-waste disposal at landfills by 40% by 2022, using 2011 as the base year. According to Figure 3 in paragraph, food-waste disposal had increased from 1.31 million tonnes in 2011 to 1.33 million tonnes in 2013. In view of the increase in food-waste disposal during this period and the inadequacies identified in the Audit Report on the reduction and recycling of food waste, the measures, including setting any mid-term targets, enhancement of monitoring mechanisms, etc., to be taken by EPD to achieve the 40% food-waste reduction target by 2022;**

Reply:

The 2014 Food Waste Plan analysed the current situation of food waste in Hong Kong, and maps out a comprehensive strategy, targets, policies and action plans for the management of such waste in the coming years with a view to tackling the challenge faced in Hong Kong to meet the target of reducing food-waste disposal at landfills by 40% by 2022, using 2011 as the base year. Based on the experience of other places, it will take some time before we can achieve meaningful reduction in the quantities of food waste being disposed at the landfills. We have therefore not set a mid-term target in the Food Waste Plan. As the Plan has only been introduced for one year, we are working diligently to implement/launch all necessary policy measures and programmes to achieve our target. We are also closely monitoring the effects of the various measures where practicable. In particular, we are conducting a food waste survey and audit for the food and beverage sector with a view to providing information to evaluate the effectiveness of the Food Wise Campaign in the sector. We will continue to closely monitor progress of various measures and make any corrective/enhancement actions as necessary to ensure that the food waste reduction target would be met. Ultimately, the question of whether we are on track to meeting the reduction target set in the Food Waste Plan will be captured in our annual waste disposal survey.

- (e) **total expenditure for the Food Wise Hong Kong Campaign (“FW Campaign”) with a breakdown of the expenditure on the design of the promotional materials, promotional and public education activities, website management and operation expenses of the Campaign since it was launched in May 2013;**

Reply:

As at end of March 2015, the expenditure spent on advertising and other related items was \$13.5 million and the total expenditure on the other major schemes and activities was \$8 million (including the expenditure on the design and publicity of the “Big Waster” at about \$1.6 million), as shown in the table below:

Description	Expenditure 2012-13	Expenditure 2013-14	Expenditure 2014-15
Advertising for the Campaign (including those in public transport system, printed materials and electronic platform, etc.).	-	About \$10.4 million	About \$3.1 million
Establishing a supporting website for the Campaign, organising food waste reduction training workshops for launching the Food Wise Hong Kong Ambassador Scheme and participation by the relevant sectors and interested parties.	About \$0.3 million	About \$0.5 million	About \$1.1 million
Organising publicity activities to promote the Food Wise message, including launch ceremony of the Campaign, Food Wise Hong Kong Steering Committee First Anniversary Ceremony/Food Wise Caroling, Food Wise Hong Kong Campaign Roving Exhibition at various Districts in Hong Kong, and design and publicity of the “Big Waster”.	About \$0.3 million	About \$2.4 million	About \$3.4 million

- (f) **according to paragraph 2(e) of the opening remark made by the Secretary for the Environment at the public hearing on 12 December 2015, as of October 2015, the Environment and Conservation Fund (“ECF”) has approved a total of 10 projects with funding support of about \$15 million for the collection of around 950 tonnes of surplus food in two years, and donation to 700 000 headcounts. In this regard, the Administration’s assessment on whether these 10 projects with a funding support of \$15 million have achieved the best value for money;**

Reply:

The Administration is committed to promoting the culture of food waste reduction, in order to avoid and reduce food waste disposed of at landfills. Since July 2014, the ECF has been funding non-profit organisations in the recovery of surplus food for distribution in the community. The funded activities include collection of surplus and edible food from markets, retail shops and food wholesalers. The collected surplus food is distributed to those in need, achieving the dual purposes of caring for the community and waste reduction. Apart from collection and distribution of surplus food, the projects also organise promotional and educational activities in the community to encourage different stakeholders to treasure food and reduce food waste. The Administration notes that the projects have brought about not only actual reduction in food waste, but also environmental education impact in deepening the awareness of members of the public on the issue.

- (g) **with reference to the different stages of the FW Campaign as mentioned by the Secretary for the Environment in paragraph 4 of his opening remark at the public hearing on 12 December 2015, the targets set, if any, and corresponding actions taken by EPD in each stage of the Campaign with the results of these actions (supported by relevant statistics, such as those on food waste generation and disposal);**

Reply:

As stated in the Policy Address 2013, the purpose of the Food Wise Hong Kong Campaign (FWHKC) is to mobilise the public and the industrial and commercial sector to reduce food waste. A Steering Committee has been set up, with representation from the various trades, academics, NGOs, university and school representatives, professionals and government departments. As decided by the Steering Committee for the Campaign, the Campaign's objectives are to promote awareness of the community on food waste problems, coordinate efforts within the Government, instill behavioral changes in the community, draw and promote good practices, and facilitate food donation. To achieve the objectives, the campaign has adopted a bottom-up strategy, with primarily stakeholders-led and trade-led and with the objective of maximizing engagement and buy-in and building partnership with the community and the trades. The Steering Committee, together with 2 Sub-committees and 6 Working Groups, decided on the strategies, approaches, foci, emphasis, tactics and action plans to take forward the campaign. There are over 110 stakeholders and representatives involved in the Steering Committee, Sub-committees and Working Groups.

Taking into account the views of the various stakeholders, the Steering Committee decided that the strategies and directions for the campaign and the work of the campaign should be broadly organized into three phases: launching phase, reaching out phase, and consolidation phase. Each year, the Steering Committee would review the progress and worked out an annual work plan and key action items, taking account of the progress and latest circumstances.

Phase 1 is the launching phase in which the key activities mainly include setting up and launching of the Steering Committee, Sub-committees and Working Groups, development of work plan, commencement of the preparation of tools and kits for food waste reduction campaign, and engagement of stakeholders and NGO in the development of tools and kits. We have successfully gone through launching phase of which the Food Wise Hong Kong Steering Committee was set up in Dec 2012 to oversee the implementation of FWHKC which was formally launched in May

2013. The Steering Committee is underpinned by two Subcommittees.

Phase 2 is reaching-out phase in which key activities mainly include extensive reach-out to the community through publicity and education programmes, and formulation and promotion of Good Practices. We are now at Phase 2 of the campaign and a number of key achievements are made as follows:

- The FWHKC was awarded Excellence Award at the HKMA/TVB Awards for Marketing Excellence 2014, recognising its effectiveness and positive impact of the FWHKC on the community. It is the first promotional campaign run by the Government receiving such award.
- The "Big Waster" (大嘍鬼) has been firmly taken root in the community and become the commonly accepted icon of waste reduction and energy saving/efficiency. Up to end of Nov 2015, the Big Waster Facebook has also received 24 000 "likes" so far.
- Wide publicity initiatives were held in a continuous manner, including two series of API, media placement, social media by means of Big Waster Facebook and roving exhibitions.
- The Government also launched the Food Wise Eateries Scheme on 2 November 2015, with about 400 participating eateries so far.
- As at November 2015, some 466 business establishments/organisations have signed the Food Waste Charter to pledge for food waste reduction, growing from some 150 in mid-2013.
- On guidance to various sectors, six Food Waste Reduction Good Practice Guides (減少廚餘良好作業守則) have been issued in 2013/2014 for "Market" Sector (in October 2014), "School" Sector (in July 2014), "Food & Beverage", "Hotel", "Residential" and "Shopping Mall" Sectors in May 2013. These Good Practice

Guides are made available for downloading on Food Wise website.

- 9 roving exhibitions have been held and the Government will continue to arrange roving exhibitions targeting a total of 18 to be held.
- 37 food wise training sessions and sharing workshops have been completed and about 3 000 participants attended these training sessions and workshops.

Phase 3 is consolidation phase in which there will be more intensive promotion of behavioral changes and adoption of good practices in various sectors of the community so as to achieve food waste reduction outcomes as far as possible. We will formulate the detailed measures to promote behavioural changes and adoption of good practices upon the completion of Phase 2 which is very likely to reach its later period in the coming year, subject to the outcome and progress of food waste reduction. In parallel, we are also conducting a food waste survey and audit for the food and beverage sector in obtaining reliable information for carrying out analysis in generation and reduction food waste in this sector for facilitating our formulation of detailed measures. (Please also read reply to question (m) below).

It should be noted that the strategy above is based on a work plan covering various actions and programmes, which we are working closely to achieve, rather than meeting any specific target set for each phase.

- (h) **according to paragraph 2.17(b) of the Audit Report, one of the objectives of the FW Campaign was for EPD to coordinate efforts within the Government and public institutions to lead by example in food-waste reduction. According to paragraphs 2.22 and 2.24 of the Audit Report, as of June 2015, of the 12 government departments invited by EPD from May to October 2013 to sign the Food Wise Charter (“FW Charter”), eight had**

not signed the Charter. Of the eight governments, six signed the Charter only after the Audit Commission had commenced the review. In this regard, the actions taken by EPD from October 2013 to June 2015 to follow up this matter with the government departments which had not signed the FW Charter.

Reply:

The Food Wise Charter is one of the nine actions under the Food Wise campaign and the objectives are to encourage participation and adoption of good practices and to recognize the efforts of organisations. From October 2013 to June 2015, EPD continued to work together with government departments in implementing and the FWHKC and help to promote food wise message. Representatives from Government Departments including Food and Environment Hygiene Department (FEHD) and Housing Department (HD) attended various meetings of Project Steering Committee and Sub-Committee of FWHKC to make contributions to the campaign. They also participated in working groups on preparation of Good Practices Guides such that a total of six Food Waste Reduction Good Practice Guides have been issued and made available for the community for reference, including Market, School, Food & Beverage, Hotel, Residential and Shopping Mall sectors. FEHD also participated in Food Waste Recycling Partnership Scheme by nominating and coordinating wet markets for the participation of the scheme. In addition, we have also liaised with various government departments (including FEHD, HD, Correctional Services Department (CSD) and Hong Kong Police Force (HKPF)) from time to time in providing Food Wise posters for facilitating them to spread out the food wise message.

We also invited, by means of emails/letters or during interdepartmental meeting, government departments having in-house catering services and/or food waste generation establishments within the facilities managed by them to sign the Food Waste Charter. Whilst some departments raised concerns on the requirements and commitments under the Food Waste Charter, after clarifications and experience sharing of those departments that have signed the Food Wise Charter, 6 additional government

departments listed in Table 2 of the audit report (including Auxiliary Medical Service, CSD, Customs and Excise Department, HKPF, Government Property Agency (GPA), Leisure and Cultural Services Department (LCSD)) have subsequently signed the Food Wise Charter. Together with Civil Aid Service, Fire Services Department, Government Flying Service and Immigration Department which had signed the Charter earlier, 10 government departments in Table 2 have signed the Charter.

In addition to participating in the FWHKC, a number of initiatives and actions had been taken by government departments for helping to reduce food waste. For example, HD implemented food waste reduction and recycling programme as detailed in Part 3 of the Audit Report. LCSD, FEHD, GPA, CSD, and the Government Secretariat Administration Wing have also implemented pilot food waste recycling programmes at some of their facilities.

- (i) According to paragraph 2.26 of the Audit Report, in order to monitor the progress of the implementation of the FW Campaign and assess the extent of achievement in food-waste reduction, EPD requested the signees of the FW Charter to submit returns on their food-waste reduction through implementing planned actions. However, according to paragraph 2.31 of the Audit Report, only 26 (2.5%) of the total 1 027 returns that should have been submitted by signees of the FW Charter contained measurable food-waste-reduction data. In this regard,**
 - i) the reason for the low response rate;**
 - ii) the actions to be taken by EPD to encourage the submission of returns, and**
 - iii) please explain how EPD would monitor and review the effectiveness of the FW Campaign given the low response rate;**
- (j) according to paragraph 2.29 of the Audit Report, of the total 1 027 returns that should have been called for in the period 2013 to 2015, EPD had only called for 808 returns (79%) and omitted**

to call for 219 returns (21%). In this regard, measures taken/to be taken by EPD to prevent recurrence of such omissions;

- (k) with reference to paragraph 2.30 of the Audit Report, the measures taken/to be taken by ENB/EPD to ascertain the reasons why many FW Charter signees failed to submit returns and their difficulties encountered;**

Reply to (i), (j) and (k):

For (i)(i), as stated in Food Wise website, "The Food Wise Charter is open to all local businesses and organizations". The Charter scheme is essentially on a voluntary basis and everyone interested in the scheme is free to join by downloading the charter application from Food Wise website and submit the application accordingly. Based on our understanding, some main reasons that they have yet to do so are because (a) they are too busy to handle their own business and thus could not spare any time to provide the returns, (b) it may involve additional resources and efforts to provide measurable food-waste-reduction data which most of businesses may not be willing to invest, noting that the Food Wise Charter is essentially on a voluntary basis, (c) there is no tangible benefits gained for submitting the periodic returns.

For (i)(ii) and (k), we will strengthen our efforts to encourage and facilitate FW Charter signees to provide returns and related measurable data, such as issuing reminders and contacting signees to understand the difficulties they have. In addition, we will enhance the efforts to consolidate good experiences and practices including those of the charter signees and share them through the network of the FWHKC, including its website and facebook so that signees can make reference to them to learn and build up their food waste reduction and monitoring practices, and also provide incentives for signees to submit returns as their efforts and achievements will be showcased publicly.

For (i)(iii), the Food Wise Charter is one of the nine programmes under the HKFWC. Signing Food Wise Charter is only one of the many ways that B/Ds, NGOs and private organisations could

contribute to the food waste reduction efforts. The effectiveness of the FWHKC should not be measured merely by the response rate of returns from signees of Food Wise Charter scheme. Instead, it is essential to note that this campaign is to promote the behavioral changes, educate/establish and adopt good practices in various sectors of the community. The effectiveness of the campaign should be assessed holistically through more scientific and subjective approach, such as the food waste survey and audit for the food & beverage sector, and ultimately the disposal quantity of food waste at landfills.

For (j), we will deploy additional resources to strengthen the efforts in checking the procedures of calling for returns to ensure that no omission would happen again.

- (l) **with reference to paragraph 2.37(d) and 2.38 of the Audit Report, the progress of issuing guidelines on the methodologies for compiling measurable food-waste-reduction data. Please provide a copy of these guidelines;**

Reply:

As part of the reaching out phase of the FWHKC, we will issue guidelines on methodologies for compiling measurable food-waste-data in accordance with paragraph 2.37(d) of the Audit Report. Once available, the guidelines will be distributed to the signees and applicants of the charter scheme, as well as to be uploaded to Food Wise website for the reference by the public. Meanwhile, we will continue to extract good experiences and practices from the returns of Food Wise Charters and share such information through the network of the FWHKC that signees can make reference to them to learn and build up their food waste reduction and monitoring practices. Also, we will make reference to those good experience and practices for developing the guidelines.

- (m) **according to paragraph 2.38(e) of the Audit Report, EPD has commissioned a food-waste survey/audit for the food and beverage sector with a view to providing information to evaluate**

the effectiveness of the FW Campaign in the sector. In this regard, whether consideration would be given to extending the survey to cover other sectors;

Reply:

The main objective of the survey is to conduct a food waste survey and audit in obtaining reliable information for carrying out analysis for the evaluation of the effectiveness of the FWHKC in reducing food waste generated in the F&B sector of Hong Kong. A baseline survey was conducted in 2014 to (i) establish the baseline data by conducting survey and measuring of food waste generated by F&B sectors; (ii) collect information on F&B sector's procedures and habits in food waste handling and measures in place to reduce food waste generation; (iii) understand the F&B sectors awareness of and attitudes towards food waste and disposal as well as their behaviour towards food waste; and (iv) estimate the food waste generation quantity of F&B sectors by on-site measurement. Subject to findings of the full survey which include interim survey and final survey, we will consider extending the survey to cover other sectors such that we could make reference to the experience gained throughout the survey.

- (n) according to paragraph 2.54 (a) of the Audit Report, as stated in the 2009-2010 Policy Address, to further reduce food waste and disposable lunch boxes, schools are encouraged to stop using disposable containers and adopt on-site meal portioning where possible. According to paragraph 2.63 of the Audit Report, EPD's latest survey conducted in 2010 showed that only 12% of students taking lunch at school took lunch through the on-site meal portioning arrangement, and 46% of those students used disposable containers. In this regard, the actions taken/to be taken by EPD to improve the above situation;**
- (o) according to paragraph 2.68 of the Audit Report, in June 2010, EPD informed the Legislative Council Panel on Environmental Affairs ("EA Panel") that it had set targets to reduce the number of disposable lunch boxes by 60 000 per day by the 2012/23 school year, and it would conduct surveys to ascertain**

the latest situation and review the targets accordingly. According to paragraph 2.69 of the Audit Report, except the 114 schools adopting on-site meal portioning funded by ECF, EPD had not conducted any survey on lunch practices of other whole-day schools from January 2011 to August 2015 nor reviewed the targets. Please explain the reason(s) for not conducting the survey during this period, and when will be next survey be carried out;

Reply to (n) and (o):

Riding on the surveys in 2008 and 2010, EPD and EDB invited all whole-day schools to apply for ECF for implementing on-site meal portioning (OMP) to prepare lunch for schools. Between 2009 and 2015, 277 whole-day schools submitted applications for retrofitting their schools to prepare OMP. After the review carried out by the Electrical and Mechanical Services Department (EMSD), 163 schools out of the 277 schools were assessed to be feasible to carry out the necessary retrofitting works (paragraph 2.65 of the Audit Report). To further promote OMP in whole-day schools, EPD wrote to 740 schools in 2013 to explain the support provided by the ECF in implementing OMP in whole-day school (paragraph 2.64(a) of the Audit Report). Furthermore, EPD and EDB issued a joint letter to all primary and secondary whole-day schools on 7 December 2015 encouraging those schools that have not yet adopted OMP to apply for ECF for implementing OMP. Up to now, applications from 114 whole-day schools have been approved by the ECF and 6 applications are being considered. EPD, in collaboration with EDB, will continue to encourage whole-day schools to adopt green lunch practices including reviewing the relevant guidelines and circulars and commending schools with good performance. EPD together with EDB will also explore arranging sharing sessions with schools on the successful implementation of OMP and other green lunch practices in schools.

The surveys on the 114 schools adopting on-site meal portioning funded by ECF could provide data on the latest situation on reduction of the number of disposable lunch boxes. According to the surveys on these schools, it was estimated that around 56 000

students had benefited from taking lunch at school through on-site meal portioning (paragraph 2.64(a) of the Audit Report). These students would no longer take lunch using disposable containers. EPD, with the support from EDB, is now considering to conduct a survey on the lunch practice of all whole-day schools in 2016, including the use of disposable lunch boxes and food-waste quantities. Based on the data collected from the survey, we will also review the targets on reduction of using disposable lunch boxes at schools.

- (p) **according to paragraphs 2.74 and 2.75 of the Audit Report, of the 32 schools approved with ECF funding in or after July 2011 (they were required to provide food-waste quantities as a condition of receiving ECF funding), only 5 schools (16%) had provided food-waste quantities both before and after adopting on-site meal portioning, and 15 schools (47%) had not provided any related information. Please explain the follow-up actions that EPD has taken on this issue and the difficulties encountered by the 15 schools that had not provided the latest information;**

Reply:

The ECF Secretariat issued follow-up letters on 3 November 2015 to all the 32 schools approved with ECF funding in or after July 2011 reminding them to provide food waste quantities both before and after adopting OMP as required under the conditions of receiving funding from ECF. As at 15 December 2015, out of the 32 schools, 26 schools had already provided the food waste quantities after adopting OMP. Some schools, which had already implemented OMP before the 2015/16 school term, explained that they had not maintained the old food waste data and had difficulties to provide the food waste quantities before adopting OMP. As the submission of returns is an on-going exercise, we expect receiving more returns in the 2015/16 school term.

- (q) **with reference to paragraph 2.88(j) and 2.91 of the Audit Report, the progress of evaluation of the effectiveness of EPD's actions to promote green lunch practice at schools, including Green Lunch Charter;**

- (r) with reference to paragraph 2.91 (a)(i), the progress of conducting periodic surveys to obtain information on lunch practice at school;**

Reply to (q) and (r):

EPD and EDB issued a joint letter to all primary and secondary whole-day schools on 7 December 2015 inviting them to complete a questionnaire on their current lunch practices in schools, including the use of disposable lunch boxes and adopting of on-site meal portioning. We will analyse the information collected and, with the support from EDB, to work out the arrangement of conducting periodic survey to obtain information on lunch practices at schools. For the Green Lunch Charter, to maximize the publicity effect, we will consider further promoting green lunch practice in schools through the Food Wise Charter.

Recycling of Food Waste

- (s) according to Plates 3.3 of the Waste Statistics for 2013 and 2014, the quantity of food waste recycled locally had dropped significantly from 28.6 thousand tonnes to 6.9 thousand tonnes from 2013 to 2014. Please explain the reason(s) for this significant drop;**

Reply:

According to data obtained from EPD's annual waste recovery survey conducted by contractors, the drop in the quantity of food waste recycled locally from 28.6 thousand tonnes to 6.9 thousand tonnes from 2013 to 2014 was due to the ceasing of operation of a large food waste recycler in 2014, coupled with a contraction in the scale of operation of a few other food waste recyclers.

- (t) According to paragraphs 3.7 and 3.11, in April 2009 and March 2010, EPD informed EA Panel that the Pilot Plant would be capable of receiving up to 4 tpd of source-separated food waste from C&I premises, and this quantity of food waste could be perceived as the net quantity of food waste to be treated a day.**

Please explain why EPD had not clearly stated that the 4 tpd figure included bulking agent and other non-food-waste materials in the papers submitted to EA Panel;

Reply:

The Kowloon Bay Pilot Composting Plant (Pilot Plant) was the first pilot facility that EPD set up to work jointly with the Commerce and Industry (C&I) sector on promoting food waste reduction and source separation. The deliverables aimed at gathering experience and information on the collection and treatment of organic waste thus facilitating future food waste recycling when the large scale organic waste treatment facilities for the C&I sector were ready for commissioning in accordance with the plan in the 2005 Policy Framework in December 2005. These objectives were presented to the Environmental Affairs Panel of Legislative Council (the EA Panel) in its paper CB(1) 1357/08-09 (03) on 27 April 2009 and CB(1) 1443/09-10(04) on 29 March 2010.

As an educational and trial facility, the Pilot Plant was of a modest scale and adopted the aerobic composting technology that does not require complex engineering work. Furthermore, the quantity of source separated food waste sent to the Pilot Plant from the participating restaurants, markets and food manufacturers fluctuates depending on the daily operations and resources for practicing source separation. The 4-tpd of source-separated food waste figure as stated in the EA Panel papers referred to the total capacity of organic waste (including food waste, bulking agents (e.g. bark chips and saw dust) and premature compost) that the Pilot Plant could handle. The addition of bulking agents and premature compost was required to achieve composting of food waste though the exact proportion of them to food waste was subject to trial for local conditions. As the Pilot Plant was to deal with “food waste”, we generalized to adopt the term “food waste” instead of referring to the various components of “organic waste” to be treated at the Pilot Plant. There was no intention to mislead the EA Panel in any way as the Pilot Plant was not set up as a regular waste treatment facility. Rather it was intended to be used for demonstration and educational purposes to encourage source separation of food waste among the

C&I sectors. In hindsight, the use of the term “organic waste” would better describe the actual process materials being used at the Pilot Plant.

- (u) **according to paragraph 3.12 of the Audit Report, in the first half of 2015, the average quantity of food waste treated at the Pilot Plant was 0.65 tpd, representing only 47% of its treatment capacity of 1.37 tpd (which is the equivalent of 4 tpd after considering the bulking agents and other non-food-waste materials). Please explain the reasons(s) for the low utilization of the Pilot Plant and the measures taken/to be taken by EPD to improve this utilization rate;**

Reply:

The Pilot Plant is set up as a demonstration facility which forms an integral part of the Food Waste Recycling Partnership Scheme (the partnership scheme) launched in 2010. The partnership scheme aims to promote food waste collection and source-separation among the C&I sectors. Since 2010, over 190 organisations have participated in the partnership scheme and their frontline staffs have become familiar with the practices of collection and source-separation of food waste. Several good practice guides for the C&I sectors have been developed through this partnership scheme for wider sharing within the C&I sectors.

As the participation by C&I premises in the Partnership Scheme was on a voluntary basis. Each participant would commit to deliver food waste within an agreed project period of 3 to 6 months. 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 together with the constraints of the collection and delivery within the premises and shopping malls before the delivery to the Pilot Plant. Therefore, the quantity of food waste delivered to the Pilot Plant would vary among different C&I premises.

Please read reply to question (w) below about the measures taken/to

be taken by EPD to improve this utilization rate.

- (v) **upon the commissioning of the Organic Waste Treatment Facility (Phase 1 in mid-2017, whether the operation of the Pilot Plant would be discontinued. If not, the measures that EPD will take to put the Pilot Plant into gainful use;**

Reply:

Upon the commissioning of the OWTF Phase 1 in mid-2017, we would review the need to continue the operation of the Pilot Plant, taking into consideration the operational performance of OWTF-1, the food waste treatment demand by the C&I sectors, the views of the participants of the Partnership Scheme, as well as the continued availability of the site for the Pilot Plant which is earmarked for development as part of the Development of Kowloon East.

- (w) **with reference to paragraphs 3.13 (b) and 3.14 of the audit report, measures to encourage more C&I premises to participate in the Food Waste Recycling Partnership Scheme;**

Reply:

ENB/EPD will strengthen the efforts to encourage more C&I premises to participate in the partnership scheme. We plan to conduct pro-active food waste collection services at FEHD's wet markets to facilitate stall owners to dispose of source-separated food waste conveniently near their stalls. We will also reach out to more individual restaurants, hotels and shopping malls to engage their participations, coupling with the provision of technical supports, guidelines and training to the C&I sectors to facilitate their implementation on food waste reduction, source separation and recycling.

- (x) **According to paragraphs 3.15 to 3.17 of the Audit Report, the projected commissioning dates for OWTF have been postponed repeatedly. For example, the projected commissioning date for OWTF Phase 2 had been postponed from 2017 under the 2013 Blueprint to end 2018 under the 2014 Food Waste Plan, and further to 2020 according to EPD. Please explain the reason(s)**

for the postponement and the updated progress of the implementation of OWTF Phases 1 to 3;

Reply:

We have kept the programme for organic waste treatment facilities under constant review and have taken all necessary steps to expedite the programme wherever practicable. Ever since the announcement in the 2009 Policy Address on the Government's commitment to tackle the problem of increasing food waste in Hong Kong and to construct a recycling centre in phases to process and recycle food waste generated by the commercial and industrial sectors into useful resources such as compost and biogas, we have carried out a number of actions including the pilot plant project and food waste partnership scheme, site searches, EIA and engineering feasibility studies for OWTF Phases 1 and 2, the pre-qualification and tendering for OWTF Phase 1 (and the retendering for OWTF Phase 1 due to very high returned tender prices, hence enhancing the cost-effectiveness of the project), detailed discussion with the C&I sector on the delivery of food waste to OWTF Phase 1, the FWHKC to raise awareness and enhance community support, and the engagement of service contractor to facilitate the C&I sector to make arrangement for delivering food waste to OWTF Phase 1.

The 2014 Government's Food Waste Plan has set out the Government's action plan, among others, for three OWTFs to be commissioned by 2022. This latest programme in the Food Waste Plan for the three OWTFs has taken into account the progress and the experience gained from the implementation of OWTF Phase 1, the preparation in the C&I sector for food waste source separation and the delivery as well as other latest relevant circumstances.

Following the funding approval of OWTF Phase 1 on 24 October 2014, we awarded the contract in December 2014 for commissioning the facilities in mid-2017. The Environmental Impact Assessment and Engineering Feasibility Study for OWTF phase 2 have been completed and the project is anticipated to commence tendering in mid-2016 with a view to commencing operation by 2020. With this programme, we plan to seek funding

approval from the LegCo for OWTF phase 2 in 2017. A site in Shek Kong has also been earmarked for OWTF phase 3 and we will take forward its EIA and Engineering Feasibility Study in 2016, with a view to commencing its operation by 2022. We will continue to take all necessary steps to expedite the programme wherever practicable.

- (y) **In August 2008, EPD appointed a consultant ("the Consultant") at a lump-sum price of \$6.2 million for carrying out engineering feasibility study, project cost estimation, environmental impact assessment study and tendering for appointing a contractor for OWTF Phase 1. However, the tender exercise for the project carried out in 2011 was cancelled in the public interest. 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 (paragraphs. 3.18, 3.20, 3.22(a), 3.23, 3.28(a) and 3.32 refer). In this regard, the scope of service provided by the Consultant, and whether EPD had assessed its performance. If yes, the assessment result; if no, the reason(s) for not doing so;**

Reply:

It should be noted that as stated in the LegCo EA panel paper in November 2010, the main purpose of the submission was to brief members on the background and the scope of the OWTF Phase 1 and inform members that the Administration would proceed with tendering for the design-build-operate contract of this project in the second quarter of 2011, and subject to the tender outcome, the Government intended to seek the funding approval of the Finance Committee. It was stated in the same paper that the Government would finalize the project estimate based on the tender return and include the cost breakdown prior to submitting the proposal to the Public Works Sub-committee for consideration. It was not the main purpose of the 2010 November submission to define a reliable project estimate at that stage. After the close of the second tender exercise, the LegCo EA panel members were briefed in March 2014 on the project cost estimate for the project based on that tender

exercise and the LegCo EA panel and the PWSC was provided in March and April 2014 respectively with the cost breakdown based on the tender return covering all key cost components of the works. As the OWTF Phase 1 project was the first of its kind in Hong Kong with limited cost reference information, the actual process adopted for the project was to conduct EIA and engineering feasibility studies, develop the project requirements, prepare tender specifications and carry out the tender exercise before finalizing the project estimate and before the submission to the PWSC for funding approval. Key requirements have been set out in the June 2011 tender document. Such process has been carefully considered by EPD and was considered to be most suitable and appropriate to reflect the most up-to-date market prices and conditions and to come up with a reliable project estimate for the PWSC to consider, given the nature of the project and the circumstances.

As regards the consultancy, EPD appointed a consultant in August 2008 for carrying out engineering feasibility study, project cost estimation, EIA study and tendering preparation and evaluation of the OWTF Phase 1 project. To expedite the planning and development of the project, we briefed the LegCo EA Panel on 22 November 2010 on the project as soon as the EIA study was completed and the technical feasibility was confirmed. We reported in the relevant panel paper the scope of the project, the then crude estimated capital costs, and that we planned to proceed with the tendering for the design-build-operate contract for the OWTF Phase 1 project before seeking funding approval from PWSC and Finance Committee on the basis of the tender results. Having consulted the EA Panel, we continued with the detailed feasibility and design studies, taking into account the site conditions and operational requirements based on the experience of the Pilot Composting Plant in Kowloon Bay. We incorporated the detailed requirements in the tender specifications and conducted tender exercises in accordance with the established mechanism. The tender exercise was closed in November 2011.

The EPD completed a detailed evaluation of the returned tenders including price analysis for the first tender exercise in March 2012.

The analysis showed that the returned tender prices were unreasonably high when compared with the updated estimates based on the latest market prices. Our assessment identified that the probable causes of the high returned tender prices were due to the high premium allowed for the escalating labour and construction costs, lack of local references in the local market which is the first of its kind in Hong Kong, uncertain amount of waste to be collected, financial costing and requirement for fully standby equipment rather than any default of the Consultant's work. These factors were not foreseen before the return of the tenders. We submitted our tender assessment report to the Central Tender Board (CTB) on 22 March 2012 and the CTB accepted our recommendation to cancel the 2011 tender exercise in the public interest and to re-tender for the project. EPD considered the Consultant had reasonably discharged their duties in accordance with the requirements under the Assignment. The EPD had followed the established administrative procedures for the management of consultants' performance to assess and evaluate the Consultants' performance quarterly throughout the consultancy study and the records showed that the overall performance of the Consultants was considered satisfactory throughout the consultancy study period.

- (z) **According to paragraph 3.23(b) of the Audit Report, the tender prices received were unreasonably high when compared with updated estimates and the project cost could be reduced by introducing some cost-reduction measures as detailed in the paragraph. Please explain the reason(s) for not incorporating the above cost-reduction measures in the original tender;**

Reply:

The probable causes of the high returned prices were more related to the high premium demanded for mitigating the construction, financing and operation risks perceived by the tenderers due to the market volatility since 2010. These factors were unforeseeable before the return of the tenders in the 2011 tender exercise. We had subsequently identified scope to suitably adjust the performance requirements without adversely affecting the operational and environmental standards expected of the OWTF project. Having

regard to the above, we introduced appropriate measures to balance the construction and price risks to both the Government and the Contractor with a view to lowering the capital and operating costs. These measures included extending the design and construction period from 24 months to 27 months; introducing more milestone payments to reduce the finance cost throughout the design and construction period; and introducing a guaranteed food waste tonnage of 50 tonnes per day to share out the risk of waste quantity uncertainty between the Government and the Contractor.

The above risk sharing measures were based on the actual feedback from the tenderers through the tendering process for this particular project to reflect their assessment of and responses to their perception of risks at the time of tendering in the light of the actual market conditions at that time, and hence could not have been foreseen before the 2011 tendering exercise for this project which is the first of its kind in Hong Kong.

We carried out a re-tendering exercise through open tendering in February 2013 and awarded the contract in December 2014. The capital cost of the awarded contract was substantially lower than the returned tender prices in the 2011 tender exercise.

- (aa) According to paragraph 3.27(b) of the Audit Report, EPD informed EA Panel in March 2014 that a reason for the significant increase in the project cost estimate was the need to operate the OWTF Phase 1 for 24 hours a day and to provide pre-treatment and waste-water treatment facilities. However, according to paragraph 3.28(b) of the Audit Report, the environmental impact assessment report approved 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. Please explain why these associated costs had not been included in the project cost estimate of \$489 million made in 2010;**

Reply:

Upon the completion and approval of the EIA report in February

2010, EPD carried out 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 requirements included the detailed design and development works for the major equipment and facilities, namely the pre-treatment facilities, the anaerobic digestion process, the biogas treatment and storage facilities, the waste-water treatment facilities and the odour control facilities, to cater for scheduled maintenance, major overhauls, variation in quality of incoming food waste and inclement weather conditions to ensure the plant's continuous operation. These detailed design and development works and the corresponding project specifications and requirements had been properly incorporated in the 2011 tender documents.

(bb) According to paragraph 3.27(c) of the Audit Report, EPD informed EA Panel in March 2014 that a reason for the significant increase in the project cost estimate was the need to carry out natural terrain and slope protection mitigation works. However, according to paragraph 3.28(c), EPD only requested the Consultant to carry out a natural terrain hazard study in 2011, leading to the omission of the required slope mitigation works costing \$66.7 million in the project cost estimate of \$489 million made in 2010. Please explain why a natural terrain hazard study had not been conducted before making the project cost estimate in 2010, and the measure that EPD will take to prevent recurrence of such omissions;

Reply:

When commenting on the Permanent Government Land Allocation (PGLA) for this project, it was noted that a natural terrain hazard study and any appropriate mitigation measures, if found necessary, should be carried out as part of the proposed development. While awaiting the Lands Department to finalize the engineering conditions for the PGLA, EPD had taken the step to instruct the Consultant to carry out the natural terrain hazard study (NTHS) to assess the requirements of the slope and natural terrain protection works. Before the close of tender in November 2011, EPD had

also taken the step to inform the tenderers on 21 September 2011 that slope mitigation and/ or stabilization works might be required and the Contractor would be informed and might be required to undertake the necessary slope mitigation and/ or stabilization and maintenance works via tender addendum. The Consultant submitted the preliminary NTHS Report to EPD on 29 Nov 2011 confirming that there were no insurmountable natural terrain hazard or slope instability issues that would affect the feasibility of the project. If the 2011 tender exercise was not cancelled on public interest ground, EPD could instruct the Contractor to carry out any necessary slope and natural terrain protection works via a variation order. The necessary natural terrain and slope protection mitigation requirements had been properly incorporated in the 2013 tender exercise and the cost of the required works had been reported in the March 2014 EA Panel paper and the PWSC/FC submitted and approved in the same year. There was no omission of works and no implication on the overall project implementation and the project cost of the OWTF Phase 1 project. In implementing a works project in future, we will take measures to ensure that significant work requirements are included in a consultancy agreement and these measures will include circulation of the draft consultancy brief to concerned government bureaux and departments for inputs and comments and undertake internal review of the draft consultancy brief before consultancy award.

- (cc) According to paragraphs 3.27(d) of the Audit Report, EPD informed EA Panel in March 2014 that a reason for the significant increase in the project cost estimate was the need to finalize the quantity of surplus electricity for the design of power generators and associated control system. However, according to paragraph 3.28(d), as early as November 2010, EPD had informed EA Panel that OWTF Phase 1 was a waste-to-energy facility and up to 28 million kilowatt-hour (kWh - EPD informed Audit in October 2015 that "28 million kWh" should read "14 million kWh") of surplus electricity could be exported every year for the adequate use of 3 000 households. Please explain why the associated cost had not been included in the project cost estimate of \$489 million made in 2010;**

Reply:

Upon the completion and approval of the EIA report in February 2010, EPD carried out 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.

As regards the quantity of surplus electricity for export from the project, the 14 million kWh per year as stated in the November 2010 EA Panel paper was the estimate based on the information available at that time before the completion of the engineering feasibility study in February 2011. A detailed analysis and accurate assessment of the plant's internal power consumption and hence the amount of surplus energy available for export could only be carried out after the completion of the feasibility in February 2011. It was also necessary to assess the impacts of variations in internal power consumption, which was subject to the Contractor's design, and make provisions in the tender specifications for such variations in defining the specifications and requirements of the power generation and surplus electricity export systems. The detailed design and development works and the corresponding specifications and requirements had been properly incorporated in the 2011 tender documents.

(dd) According to paragraphs 3.27(e) of the Audit Report, EPD informed EA Panel in March 2014 that a reason for the significant increase in the project cost estimate was that consultants' fees for contract administration and remuneration of resident site staff were later found to be required. However, according to paragraph 3.28(e) of the Audit Report, the related cost estimates should have been included in the original project estimate. Please explain why the associated cost had not been included in the project cost estimate of \$489 million made in 2010;

Reply:

The initial estimate at \$489 million presented in the 2010 EA Panel

paper was an indicative figure based on an initial, broad-brush scheme. As we mentioned above, the purpose of the EA Panel paper was to set out the background and scope of the OWTF Phase 1 project and to inform the Panel that the Government would proceed with tendering for the design-build-operate contract of the project in the second quarter of 2011. On the other hand, the contract administration consultancy would be selected in accordance with the established administrative procedures for consultant selection.

Upon the completion and approval of the EIA report in February 2010 and in parallel with the project tender preparation works, EPD carried out an in-house assessment of the requirements of the contract administration works and because of the practical need to commence the consultants selection process in parallel with the tendering process such that the works contract and the consultancy could be awarded at the same time, EPD sought SEN's approval for initiating the consultant selection procedures before funding was secured in accordance with Financial Circular No. 2/2009. SEN's approval was obtained on 22 September 2011 for the EPD to initiate the consultant selection process in January 2012. The most updated cost estimate for these items based on the technical and fee proposals received together with a detailed breakdown had been provided to LegCo in the March 2014 EA Panel paper and the PWSC/FC submitted and approved in the same year.

- (ee) According to paragraph 3.31 of the Audit Report, partly owing to the cancellation of the 2011 Tender Exercise and re-tendering of the project in 2013, the commissioning of OWTF Phase 1 had been 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. Please explain whether EPD was aware of the consequence of cancelling the tender exercise in 2011 at that time, measures that EPD had taken at that time to address the additional food waste disposed of at landfills and measures to be taken by EPD to improve the implementation of works projects in future;**

Reply:

As stated in the Food Waste and Yard Waste Plan for Hong Kong promulgated by ENB in February 2014, we envisage Hong Kong needs to build a network of around five to six OWTFs between 2014 and 2024 with a total recycling capacity of about 1 300 - 1 500 tonnes per day. It will take some years before Hong Kong has the recycling capability to deal with approximately 50% of the city's food waste. Before completion of the OWTF network, food waste generated would have to be disposed of at landfills. The OWTF Phase 1 is designed to recycle 200 tonnes of food waste per day, which is equivalent to about 2% of the total MSW disposed of at landfills in Hong Kong. Before commissioning the OWTF Phase 1 in 2017, the current practice of food waste disposal has to continue.

OWTF Phase 1 was the first of its kind in Hong Kong and there was no applicable reference of cost to allow the EPD to come up with an accurate cost estimate for the project. The initial estimate of \$489 million set out in the November 2010 LegCo EA Panel paper was an indicative figure based on an initial, broad-brush approach. ENB/EPD had explained in March 2014 to the LegCo EA Panel among other things the main reasons for the differences between the latest project cost and the initial indicative estimate.

It should be noted that EPD had followed the Government's tendering procedures in the preparation and evaluation of the 2011 tendering exercise and sought the relevant approval of the Central Tender Board as required along the way. After assessment of tenders received in accordance with the tender procedures, the EPD's Tender Assessment Panel found that the tender prices were unreasonably high when compared with updated estimates and it would not be in the public interest to proceed with the award of the tender. The Central Tender Board approved EPD's proposal to cancel the 2011 Tender Exercise in March 2012. It is unfortunate that the 2011 tender exercise was cancelled. But it was done to protect the public interest. Its cancellation had not been caused by any under-estimation of project costs as there were established

internal government procedures to seek an increase in the project estimates to cover any shortfall due to higher than expected tender prices. The 2011 tender exercise could still have been completed successfully if not for the unreasonably high tender prices received. Assuming that if the returned tender in the first tender was not unreasonably high, we would have gone through the internal resource allocation process to seek approval to increase the project estimate, which might take 3 to 6 months, and submitted the project to LegCo EA panel and PWSC for approval, which might take another 6 to 9 months. So the delay of the OWTF Phase 1 would only be the extra time required for the second tender exercise, which was necessitated by the unreasonably high tender prices received in the first tender exercise.

Having assessed the tender returns in the first tender exercise, we had identified scope to suitably adjust the performance requirements which would mitigate the perceived risks and costs in project delivery, without adversely affecting the operational and environmental standards expected of the OWTF Phase 1 project. The re-tender exercise was carried out in February 2013 and tender evaluation was completed in January 2014. The returned prices were substantially lower than those from the previous cancelled tender exercise validating the decision to cancel the 2011 tender. We consulted LegCo EA Panel in March 2014 on the updated project cost estimate and scope on the basis of the tender results. The PWSC and Finance Committee endorsed and approved the project in April 2014 and October 2014 respectively. The design-build-operate contract for OWTF Phase 1 was awarded in December 2014.

The above contract provides important cost information and reference data for EPD to come up with more accurate project cost estimate for future OWTFs. We have already made use of this set of updated and relevant project cost data for estimating the project cost of further phases of OWTF.

(ff) According to paragraph 3.33 of the Audit Report, ENB/EPD informed EA Panel in March 2014 that they did not have the

detailed breakdown information on the project cost of \$489 million estimated in 2010. However, according to paragraph 3.35 and Appendix G of the Audit Report, such information was in fact available. Please explain the reason(s) for not providing such information to EA Panel in March 2014;

Reply:

The OWTF Phase 1 was the first of its kind and scale of organic waste treatment facility to be developed in Hong Kong and there was little information on local cost figures and no applicable reference of cost to allow EPD to come up with an accurate cost estimate for the project. Given the lack of local reference cost data for development and implementation of organic waste treatment facilities in Hong Kong, EPD adopted a prudent and cautious approach of going for tendering prior to PWSC submission in order to get a more reliable estimate for seeking funding approval.

In June 2006, EPD commissioned a consultancy study for the design and development of the Kowloon Bay Pilot Composting Plant and under this consultancy study, a rough preliminary capital cost estimate based on information collated from overseas anaerobic digestion technical suppliers for the development of large scale biological treatment facilities was compiled in April 2007 (as shown in Part (A) of Annex G). This rough preliminary capital cost estimate formed the basis for EPD to form the initial capital cost estimate for OWTF Phase 1.

This rough preliminary capital cost estimate, which was prepared before EPD appointed a consultant to carry out engineering feasibility study in Aug 2008, was intended for indicative purpose and subject to change upon detailed development of the OWTF Phase 1. The detailed engineering feasibility study was completed in February 2011.

As shown in Appendix G of the Audit report, the breakdown only comprised broad-brush estimates for the basic elements and these indicative cost estimates were based on information collated from overseas anaerobic digestion technical suppliers for the

development of large scale biological treatment facilities for a hybrid anaerobic plus composting treatment system. These cost estimates which were prepared before carrying out the engineering feasibility study were not site and project specific and meant for broad-brush cost indication only.

In addition, the rough preliminary capital cost estimate was based on a design of hybrid system with part of the organic waste to be treated by anaerobic digestion while the remaining would be treated by aerobic composting. In the course of the engineering feasibility study, it was reviewed and confirmed that full anaerobic digestion for all the food waste received would be more suitable and cost effective for the extremely wet Hong Kong food waste. It was also proposed that the residues of anaerobic digestion (called digestate) should be treated by aerobic composting to render the residue suitable for use as soil conditioner. This arrangement also met our policy as stated in the Food Waste Plan to treat the city's collected food waste to produce energy using anaerobic digestion as the core technology given that Hong Kong has a large need for energy and has been adopted for OWTF Phase 1.

As the rough preliminary capital cost estimates given in the Technical Feasibility Statement were not directly applicable to OWTF Phase 1, we did not consider that the various estimated cost components to be accurate reflection of the likely estimated costs, even though we had adopted the broad brush estimated figures with suitable price adjustments and changes in project design up to that time when preparing the crude estimated costs for the purpose of presentation to LegCo EA Panel in November 2010. We had informed LegCo EA Panel at that time that the estimated project costs were very crude and that we would update these costs according to the tender results before we seek funding approval from LegCo. As we had not accepted the rough preliminary capital cost estimates as accurate reflection of the eventual project cost, a direct comparison with the detailed cost breakdown provided to LegCo for OWTF Phase 1 would be very misleading.

Based on the returned tender prices representing the most updated

market price information, EPD reported the updated project cost estimate together with a detailed breakdown of all the major works components to LegCo in the March 2014 EA Panel paper and submitted to the PWSC/FC for approval in the same year.

- (gg) With reference to paragraphs 3.39(b) and 3.40 of the Audit Report, the measures that EPD has taken or will take to ensure that adequate quantity of food waste is collected and delivered to OWTF Phase 1 for treatment upon its commissioning in mid-2007;**

Reply:

Please read the reply to question (oo) below.

- (hh) with reference to paragraph 3.54 of the Audit Report, the measures that EPD will take to achieve the participation rate of 11% of all households in Hong Kong in separation of food waste by 2022;**

Reply:

The figure of 250,000 households (about 11% of the 2 270 000 households in Hong Kong) as mentioned in page 15 of the Food Waste Plan illustrated a possible scenario assuming OWTF Phase 1, 2 and 3 could be built by 2022 as scheduled in the 2014 Food Waste Plan.

It is stated in the 2014 Food Waste Plan that achieving this magnitude of increase of food waste recycling requires massive social mobilization, as well as collaboration with food-related business and estate managers. The FWHKC will work hard to mobilize all stakeholders and the public. It is also anticipated that food separation would increase progressively in scale when MSW charging is in place. The EPD will also ensure that OWTF Phase 1 to commence operation by 2017 and endeavour to take forward OWTF Phases 2 and 3 as early as practicable

- (ii) according to para. 3.63 of the Audit Report, up to June 2015, 67% of the nine completed food waste recycling projects in**

private housing estates had not applied for the extended funding support after expiry of the original two-year period. In this regard, measures that will be taken by EPD to encourage private housing estates to apply for the extending funding support;

Reply:

By June 2015 when the Audit review was carried out, there were 9 Phase 1 projects completed. For information, these projects had different commencement and completion dates. The estates had the free choice in joining the extension scheme. Among the 9 completed projects, 3 estates have applied for the extension scheme and were approved. For the 6 estates “not applied for extended funding support” as denoted in Table 11 in the Audit report, some of them were considering to apply for the extension scheme.

As at end November 2015, there were another 2 Phase 1 projects completed. Amongst those 8 completed projects eligible for joining the extension scheme, 4 more applications were received and being processed; 2 estates declined to join because the estates were not willing to pay the remaining operation cost; and 2 estates were still pending their formal reply.

EPD will continue to provide technical support (including technical guidelines, information leaflets, hotline for technical enquiries, etc.) to those estates that have completed the initial phase of projects and joined the extended scheme.

Way forward

- (jj) based on lessons learned from the operation of the Pilot Plant and the food-waste recycling schemes in the private housing and public rental housing estates, measures that EPD will take to implement an effective system for separating, collecting and transporting food waste from the C&I sector and the domestic sector to OWTFs for the treatment;**

Reply:

Further to the explanations made in answering question (nn), we will initiate a study on Organic Waste Collection and Delivery to OWTFs. Various factors/issues will be considered in the course of the study, including collection and delivery arrangement, types of collection vehicles, necessary ancillary and supporting facilities, on-site interim storage, as well as the social, institutional, legislative and resource implications.

- (kk) according to paragraph 4.8 of the Audit Report, the refuse collection vehicles of the Food and Environment Hygiene Department 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. Please provide the measures that EPD will take to address this problem;**

Reply:

At present, there are two types of refuse collection vehicles available in the market, which suit the waste reception at OWTF-1, they include:

- (i) Vehicle adopted under the Food Waste Recycling Partnership Programme - close compartment vehicle with lifting platform at the back (密斗貨車連尾板升降台) in which collection bins (say 240 L volume) containing food waste will be placed inside the closed compartment for transportation to prevent spillage and odour emission.



or (ii) Vehicle adopted for the collection of livestock waste - vehicle with sealed containers where food waste is dumped into the sealed containers (特定防漏則上筒缸車) at the collection point.



According to our initial discussion with the waste collection trade, they will choose to use the above 2 types of the vehicles for delivery the source separated food waste to the OWTF Phase 1 when it commences its operation, depending on the market demands as well as conditions and quantities of food waste to be collected. EPD will continue and strengthen the efforts to liaise and work with the relevant trades and organizations to make suitable arrangements in due course.

- (II) **with reference to paragraph 4.10 of the Audit Report, actions that EPD will take to explore ways and means to make beneficial use of the compost that would be generated by OWTF phases 1 to 3;**

Reply:

The OWTF Phases 1 and 2 aim to covert food waste into useful resources, such as biogas and compost.

It is estimated that the OWTF Phases 1 and 2 would produce about 7 400 tonnes and 14 900 tonnes of compost per year respectively. On the other hand, it is estimated that the demand of compost /

fertilizer in Hong Kong would fluctuate (e.g. affected by the number of works contracts which require soil conditioner and fertilizer) and is around 20 000 tonnes per annum based on a conservative estimation. The previous experience from the Kowloon Bay Pilot Plan project has received positive feedback from various government departments and local users on the compost quality. We estimate that the demand from the government departments plus private markets should be able to absorb most of the compost produced from the OWTF Phases 1 and 2. It is also anticipated that the contractor of the OWTF would also explore the Mainland and overseas market for the compost products.

The technology of OWTF Phase 3 would be reviewed in the Engineering Feasibility Study to be commenced in 2016. Whether composting technology (together with anaerobic digestion) would be adopted for OWTF Phase 3 has not been determined.

(mm) with reference to paragraph 4.12(c) of the Audit Report, the progress in identifying suitable sites for constructing additional OWTF to treat the remaining food waste that can be separated and collected for treatment;

Reply:

The 2014 Food Waste Plan envisaged Hong Kong needs to build a network of around five to six OWTFs in the long term with a total recycling capacity of about 1 300 – 1 500 tonnes per day.

OWTF Phase 1 is already under construction at Siu Ho Wan (North Lantau). A site in Sha Ling of North District, and Shek Kong of Yuen Long has already been earmarked for OWTF Phase 2 and 3 respectively. We are following up with the relevant departments, in particular Planning Department, to identify suitable sites for additional OWTFs in other regions.

(nn) with reference to 4.12(d) of the Audit Report, the progress of the study on the food-waste collection and delivery arrangements to prepare for the operation of future OWTF; and

Reply:

The study on Organic Waste Collection and Delivery to OWTFs is planned for commencement in year 2016. We are working on the preparatory works and finalizing the scope of this study with a view to initiating the tender for commencement of the study.

- (oo) With reference to 4.12 (e) of the Audit Report, the progress of liaising and working with the relevant trades and organizations for them to make suitable arrangements (including provision of suitable vehicles) to deliver food waste to OWTF Phase.**

Reply:

In June 2010, EPD launched the Partnership Scheme in collaboration with the C&I sectors to provide training to managerial and front-line staff of participating premises on good food-waste management practices, and gain experiences in source separation and delivery of food waste. Several good practice guides for the C&I sectors have been developed through this partnership scheme for wider sharing within the C&I sectors.

We are liaising closely with various stakeholders and waste collectors to source separate and deliver food waste to OWTF-1 upon its commissioning, with particular focus on different key sectors (such as restaurant trade, developers of shopping malls, hotel trade, food factories, etc.) within the catchment of the OWTF-1. We will provide technical support, guidelines and the associated trainings for the trades/sectors. We have also engaged a service contractor to facilitate the communication between C&I sectors and the waste collectors to implement food waste reduction, source separation, collection and transportation, etc. We are liaising with over 230 establishments to explore logistic arrangement for delivering food waste to OWTF Phase, the response is generally positive so far.

Moreover, we are liaising with FEHD to explore the possibility of conducting the pro-active food waste collection at the 36 wet markets identified. In order to increase the amount of food waste collected, the mode of operation will allow the stall operators to

dispose source-separated food waste at a designated time and location, without the need to leave their stalls. We will continue to liaise with other government departments (disciplined services, LCSD and quasi-government units, such as Hospital Authority and Universities, etc. on this issue.

We will continue our liaison with various trades/sectors, aiming at engaging the continuous support from the C&I sectors so as to secure sufficient food waste. We anticipate that the food waste amount to be delivered to the OWTF-1 will be able to meet its operational requirements at its early operational stage. The amount will then gradually grow to achieve its maximum design capacity of 200 tpd.

香港懲教署



CORRECTIONAL SERVICES DEPARTMENT
HONG KONG

香港灣仔港灣道 12 號
灣仔政府大樓 24 樓
懲教署總部

本署檔號 Our Ref: CSD CR 1-125-5/20 P-3
來函編號 Your Ref:
電話號碼 Tel No: 2582 5198
傳真號碼 Fax No: 2583 9307

22 December 2015

Mr Anthony CHU
Clerk, Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr CHU,

Public Accounts Committee
Consideration of Chapter 2 of the Director of Audit's Report No. 65
Reduction and recycling of food waste

Thank you for your letter dated 15 December 2015.

2. The Correctional Services Department (CSD) attaches importance to environmental protection. We generally agree to the recommendations set out in paragraph 2.49 of the Audit Report (see Annex 1) and will take follow-up actions as appropriate.
3. On environmental protection, CSD took the initiative to formulate food waste management measures in 2012, and has progressively put them into operation with our existing manpower and financial resources since April 2013.
4. Over the past two years or so, CSD has implemented a series of food waste management measures, as follows:

- (a) In April 2013 (i.e. one month before the launch of the Food Wise Charter), CSD put in place the voluntary Waste No Food Scheme in Lo Wu Correctional Institution (LWCI) to enhance environmental awareness among persons in custody (PICs) and encourage them to reduce leftovers. Between November 2013 and May 2014, the Scheme was extended to three more correctional institutions with relatively more food waste, namely Nei Kwu Correctional Institution (for women), Tai Lam Centre for Women and the Elderly Unit of Tai Lam Correctional Institution (i.e. PICs transferred from the former Ma Hang Prison). In other words, a total of four institutions with relatively more food waste have implemented the Waste No Food Scheme so far.
- (b) In May 2013 (i.e. within the same month when the Food Wise Charter was launched), CSD assigned LWCI to sign the Food Wise Charter.
- (c) In 2013 and 2015, food waste decomposing machines were installed in LWCI and Stanley Prison respectively.

5. Furthermore, CSD signed the Food Wise Charter in October 2015. We will draw up concrete measures, having regard to the advice of the Environmental Protection Department, for more effective management of food waste.

6. As set out in paragraph 2.46 of the Audit Report, the per-PIC-per-day food-waste quantities of the 29 correctional institutions were at an average of 0.11 kg in the food-waste survey period. According to Appendix D on P. 93 of the Audit Report (see Annex 2), of the 29 institutions, the per-PIC-per-day food-waste quantities of 15 institutions (involving an average of 6 627 PICs provided with meals by CSD, or 78% of the respective population) were at an average of 0.11 kg or below. For the institutions with relatively high per-PIC-per-day food-waste quantities, CSD has analysed the situation and is taking follow-up actions as appropriate, including:

- (a) According to Appendix D of the Audit Report, two half-way houses, i.e. Pelican House and Phoenix House, had the highest per-PIC-per-day food-waste quantities of 1.61 kg and 1.03 kg respectively. In the food-waste survey period, there were a daily average of two and four PICs ordering meals respectively. The PICs involved were permitted to leave the CSD institutions for day activities and they might choose to consume their own food. Under such circumstances, although they had ordered their meals beforehand, they either did not take the meals provided by CSD or they had leftovers.

Apart from the above half-way houses, similar situations also occurred among PICs participating in Phase II of the programmes of Lai Hang Rehabilitation Centre and Wai Lan Rehabilitation Centre. In the food-waste survey period, there were a daily average of 11 and one PICs ordering meals respectively, and the per-PIC-per-day food-waste quantities were 0.36 kg and 0.33 kg respectively.

In view of this, CSD has stepped up publicity and urged PICs in half-way houses and Phase II of rehabilitation-centre programmes to cherish food by encouraging them to order meals only if they know they will take the meals inside the institutions to avoid food waste.

- (b) Tai Lam Centre for Women (TLCW), which accommodates female remands who have not yet been convicted, has a relatively high per-PIC-per-day quantity of food waste (1.00 kg). The relatively high amount of food waste may be attributed to the loss of appetite as a result of the emotion experienced by a number of female remands who are less acclimatised to the new environment. Moreover, the remands population may highly fluctuate from time to time. Hence, the participation rate of TLCW in the Waste No Food Scheme is relatively low. The implementation of the Scheme is a challenge. That said, CSD will continue to help those female remands adjust to the custodial environment as far as practicable. We will also step up publicity to encourage them to actively participate in the Scheme thereby reducing food waste.

7. Looking ahead, CSD will strengthen publicity and promotion of the Waste No Food Scheme in institutions where there is room for improvement. For example, we will assign our staff as Food Wise Ambassadors to disseminate to PICs the message on cherishing food and reducing food waste. CSD will also continue to educate and encourage PICs to cherish food and pursue a healthy and balanced eating habit by organising relevant activities for them, such as slogan and poster design competitions. Those winning entries will be displayed in the institutions. In addition, CSD will carry out inspections from time to time to monitor progress.

8. It is our belief that being provided with adequate nutritious food is a basic human right. Hence, CSD provides plain and wholesome food for PICs as prescribed by law and in accordance with humane principles, which fulfils the prevailing international dietary guidelines. The standard quantity and nutritional contents of food in the existing Dietary Scales are designed by qualified dietitians and supported by the Department of Health. CSD will not cut the portion of the meals of PICs for the purpose of reducing food waste. We will continue to safeguard the basic rights of PICs who should be supplied with adequate nutritious food. At the same time, we will continue to encourage PICs to participate in the Scheme on a voluntary basis and step up our efforts in food waste management.

9. CSD must emphasise that PICs should be treated in a prudent, reasonable and fair manner. Due care should be taken to strike a balance among various factors, including available resources of institutions, manpower, discipline, stability and anticipated number of participants. We will as far as practicable continue to explore appropriate approaches and means to further promote the Scheme in the institutions where there is room for improvement.

Yours sincerely,



(Miss Fu Ha-man, Dora)

for Commissioner of Correctional Services

cc	Secretary for the Environment	(fax no.2537 7278)
	Director of Environmental Protection	(fax no.2891 2512)
	Secretary for Education	(fax no.2810 7235)
	Chief Executive, Hospital Authority	(fax no.2576 5050)
	Director of Housing	(fax no.2761 6700)
	Director of Food and Environmental Hygiene	(fax no.2524 1977)
	Secretary for Financial Services and the Treasury	(fax no.2147 5239)
	Director of Audit	(fax no.2583 9063)

Chapter 2 of Report No. 65 of the Director of Audit

Reduction and recycling of food waste

(Excerpt)

“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.”

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.

Our Ref. : (31) in HA894/1/8

22 December 2015

Mr Anthony CHU
Clerk
Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central

Dear Mr CHU,

Public Accounts Committee
Consideration of Chapter 2 of the Director of Audit's Report No. 65
Reduction and recycling of food waste

Thank you for your letter dated 15 December 2015 on the captioned subject.

Please find in the **Annex** measures that the Hospital Authority has taken and would take to further minimize food waste in HA hospitals.

Yours sincerely,



(Desmond NG)
for Chief Executive
Hospital Authority

**Public Accounts Committee
Report No. 65 of the Director of Audit
on the results of value for money audits - October 2015**

Chapter 2 - Reduction and recycling of food waste

The Hospital Authority (HA) has signed the “Food Wise Charter” since May 2013 under the Food Wise Hong Kong Campaign initiated by the Environmental Protection Department (EPD) to prevent and reduce food waste, and has established a governance structure in the Authority to monitor and oversee follow up actions in relation to results of food waste surveys conducted in the hospitals. According to the survey results as reported in the Audit Commission’s report, the quantity of food waste in the Authority has reduced by 11% in 2015/16 comparing with that in 2013/14.

2. In connection with observations in the Audit Report, HA conducted a special meeting among its hospitals to identify and share good practices, with a view to further preventing and reducing food waste in patient food where practicable. All hospitals with patient meals served have subsequently implemented the following good practices :

- Minimize the number of spare meals as far as possible; and
- Ensure timely updating of patient meal number in the Dietetic and Catering Management System.

3. Initial review of the food waste generated (per-in-patient-per-day) in Grantham Hospital and Kowloon Hospital / Hong Kong Eye Hospital / Hong Kong Buddhist Hospital showed that the amount of food waste was reduced from 0.58 Kg and 0.46 Kg as stated in the report of the audit conducted in July 2015, to 0.33 Kg and 0.35 Kg respectively in November 2015. HA will continue to conduct food waste surveys and identify good practices and areas for improvement with a target to further minimize food wastage.

4. In addition to food waste reduction at source, HA has adopted the following food waste treatment practices with a view to reducing the burden on food waste disposal at landfills :

- 14 hospitals are using decomposers to convert solid food waste into fertilizers for plantings / gardening in the hospital compounds. In the coming three years, more HA hospitals will be included for using decomposers;
- Food waste pulpers are used in hospitals to reduce the weight of food waste by 70%;
- Recycling waste collectors are arranged for food waste collection for converting food waste into fertilizers; and
- HA is exploring food donation programme, through a pilot project in the Pamela Youde Nethersole Eastern Hospital, for donating fresh leftover vegetables and entrée in kitchen to charitable institutions for distributing to people in need. HA will review the effectiveness of the programme in due course.

(Translation)

24 December 2015

Mr Anthony Chu
Clerk to the Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 2 of the Director of Audit's Report No. 65
Reduction and recycling of food waste

Thank you for your letter dated 15 December 2015. To facilitate the Public Accounts Committee's consideration of the captioned report, we would like to provide information as requested in the ensuing paragraphs.

(a) The reason(s) for not signing the Food Wise Charter

The Food and Environmental Hygiene Department (FEHD) agrees with and supports the principles of the Food Wise Charter (the Charter). Although we have not signed the Charter, we have been working to complement the efforts of the Environmental Protection Department (EPD) in the promotion of food waste reduction and recycling.

We are unable to sign the Charter mainly because of the difficulty in meeting the requirements in relation to target-setting and auditing for food waste reduction. Our specific considerations of those clauses and the implementation of other clauses are listed below:

Clauses in the Food Wise Charter		Action taken by FEHD
Clause 1	Promoting best practices and behavioural changes to reduce food waste.	✧ FEHD supports this idea and is happy to participate in EPD's promotional efforts in this respect insofar as resources permit.
Clause 2	Drawing up plans to promote the awareness and acceptance of food waste reduction best practices by stakeholders within our organisations.	<p>✧ We have taken action to assist in drafting Food Waste Reduction Good Practice Guide for the market sector, and offer the Market Management Consultative Committees of public markets as platforms for dissemination and promotion of best practices for food waste reduction among market stall tenants.</p> <p>✧ We have assisted EPD in distributing leaflets on food waste reduction to fast food vendors in the annual Lunar New Year Fairs to appeal for their support.</p> <p>✧ We have installed since end-2012 on a trial basis a food waste composter at a public market (i.e. Tai Shing Street Market) for on-site conversion of food waste into compost.</p>
Clause 3	Implementing plans with measurable targets to reduce food waste in our organisations and business settings.	✧ The Charter requires departments to draw up waste reduction plans and monitor the implementation of such plans. FEHD, as the landlord of public markets, is responsible for the management of public markets and, as the licensing authority, is responsible for the issuance of licences to food business premises. FEHD itself is not a food waste producer. It is therefore difficult for FEHD to make a commitment on behalf of the public market tenants or holders of food business licences in the territory to formulate plans with measurable targets and to sign the Charter, which involves target-setting and waste audits. It is also difficult for FEHD to stipulate that market tenants or holders of food business licences must reduce the food waste they generate. FEHD may complement EPD's efforts to encourage their participation.
Clause 4	Encouraging and supporting the management of organisations to conduct in-house waste audits and to use the results of those audits to improve waste management performance.	

Clause 5	Supporting the Food Wise Hong Kong Campaign and similar initiatives to encourage behavioural and cultural changes that engender respects for our precious food and natural resources.	<p>✧ FEHD supports this idea and is happy to participate in EPD's promotional activities in this respect. As one of the members of the Food Wise Hong Kong Steering Committee, we, together with other stakeholders, support and participate in the Food Wise Hong Kong Campaign, including its Food Waste Recycling Partnership Scheme. By way of example, to complement the work of EPD, FEHD has offered three markets (namely Tai Kiu Market, North Kwai Chung Market and Po On Road Market) for EPD's contractors to collect food waste for treatment at the Kowloon Bay Pilot Composting Plant in 2015-16. Another three markets will be recommended for carrying out similar trials in 2016-17.</p>
Clause 6	Promoting and adopting recipes that make use of food trimmings.	<p>✧ Holders of food business licences and public market tenants must observe the relevant regulations on food safety and environmental hygiene. In respect of the type of menus or recipes, FEHD may complement EPD's publicity and education efforts to encourage their adoption.</p>
Clause 7	Supporting food donation activities whenever possible.	<p>✧ FEHD supports the food trade to sign the Charter and to participate in EPD's efforts in the promotion of food waste reduction, including donation of edible food to charitable organisations following food safety principles. In this connection, Centre for Food Safety under FEHD has issued Food Safety Guidelines for Food Recovery to assist organisations in ensuring food safety while conducting food donation. As food trimmings belong to market tenants and holders of food business licences, it is difficult for FEHD to mandate that they must donate them. FEHD may complement EPD's education and publicity efforts to encourage their participation.</p> <p>✧ In addition, FEHD has assisted to promote related initiatives, such as assisting to implement</p>

		<p>a pilot scheme on food donation in public markets. FEHD has offered 17 markets for EPD to study the setting up of food collection points. EPD intends to have food collection points set up in six of these markets (namely, Kowloon City Market, San Hui Market, Tung Yick Market, Sha Tin Market, Shek Wui Hui Market and Heung Che Street Market), as the first batch, by suitable non-government organisations identified by EPD. The location plans of these six markets have been furnished to EPD for its consideration. FEHD and EPD are studying the specific arrangements.</p>
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(b) The measures that FEHD has taken / will take to encourage the reduction of food waste in the public markets under its management

Although unable to sign the Food Wise Charter, FEHD has put in place a series of measures on reduction and recycling of food waste, including:

- (i) Actively participating in EPD's Food Wise Hong Kong Campaign and assisted in drafting Food Waste Reduction Good Practice Guide for the market sector;
- (ii) Installed since end-2012 on a trial basis a food waste composter at a public market (i.e. Tai Shing Street Market) for on-site conversion of food waste into compost;
- (iii) Offering the Market Management Consultative Committees of public markets as platforms for dissemination and promotion of best practices for food waste reduction among market stall tenants;
- (iv) Actively participating in the Food Waste Recycling Partnership Scheme organised by EPD, including nomination of some public markets to participate in the Scheme;
- (v) Assisting EPD in distributing leaflets on food waste reduction to fast food vendors in the annual Lunar New Year Fairs to appeal for support; and
- (vi) Centre for Food Safety under FEHD issued Food Safety Guidelines for Food Recovery to assist organisations in ensuring food safety while conducting food donation.

While resources and expertise permit, FEHD will continue to work in collaboration with EPD and provide support to its food waste reduction initiatives. Measures under consideration include:

- (vii) FEHD plans to set aside some areas in certain public markets for suitable non-government organisations (NGO) identified by EPD to set up food collection points in order to facilitate NGO's collection of food donated by market stall tenants to the needy. FEHD and EPD are studying the specific arrangements; and
 - (viii) EPD is planning source-separated food waste collection from public markets for delivering to and treatment at its Organic Waste Treatment Facility. FEHD and EPD are discussing the source-separated food waste collection arrangements and division of work.
- (c) **Whether consideration would be given by FEHD to implementing surplus food collection and donation programmes in public food markets under its management, such as the programme supported by Link Real Estate Investment Trust in its fresh markets to collect and donate surplus food to the needy**

In addition to implementing the measures on reduction and recycling of food waste, FEHD assists in promoting the development of related issues, such as food donation. As mentioned in item (b) (vii) above, we plan to set aside some areas in certain public markets for suitable NGO identified by EPD to set up food collection points. FEHD and EPD are studying the specific arrangements.

Yours sincerely,



(Sian Ly)

for Director of Food and Environmental Hygiene

c.c. Secretary for the Environment
Director of Environmental Protection
Secretary for Food and Health
Secretary for Financial Services and the Treasury
Director of Audit



中華人民共和國香港特別行政區政府總部教育局
Education Bureau

Government Secretariat, The Government of the Hong Kong Special Administrative Region
The People's Republic of China

香港添馬添美道2號政府總部東翼5樓學校行政及支援第一組

School Administration and Support 1 Section, 5/F., East Wing, Central Government Offices, 2 Tim Mei Avenue, Tamar, HK

本局檔號 Our Ref.: (16) in EDB(SA1)/SA/POL/10(II)

電話 Telephone: 3509 7456

來函檔號 Your Ref.: CB4/PAC/R65

傳真 Fax Line: 2572 5402

22 December 2015

Mr Anthony CHU
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road, Central, Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 2 of the Director of Audit's Report No.65
Reduction and recycling of food waste

With reference to your letter dated 15 December 2015, please find enclosed information pertaining to items (a) to (e) set out in your letter at **Annex**.

Yours sincerely,

(Mrs HONG CHAN Tsui-wah)
for Secretary for Education

- c.c. Secretary for the Environment (fax no. 2537 7278)
Director of Environmental Protection (fax no. 2891 2512)
Chief Executive, Hospital Authority (fax no. 2576 5050)
Commissioner of Correctional Services (fax no. 2583 9307)
Director of Housing (fax no. 2761 6700)
Director of Food and Environmental Hygiene (fax no. 2524 1977)
Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

Response to Public Accounts Committee regarding Chapter 2 of the Director of Audit's Report No. 65 Reduction and recycling of food waste

- (a) measures to encourage schools to carry out assessment of their feasibility to adopt on-site meal portioning

With reference to paragraph 2.88 (c) in Chapter 2 of the Audit Report, Audit has recommended that the Secretary for the Environment and the Director of Environmental Protection, in collaboration with the Secretary for Education, should encourage schools to carry out assessments of their feasibility to adopt on-site meal portioning. In this regard, the Education Bureau (EDB) would provide necessary support to the Environmental Protection Department (EPD) to take forward the recommendation.

In this connection, EPD and EDB jointly issued a letter to all primary and secondary whole-day schools on 7 December 2015 encouraging those schools that have not yet adopted on-site meal portioning arrangement to apply to the Environment and Conservation Fund (ECF) for implementing on-site meal portioning to prepare lunch for students. For those schools with expressed interest in applying for ECF funding, they may request the ECF Secretariat to arrange for a site visit for conducting a preliminary assessment on the feasibility to adopt on-site meal portioning. Schools which are assessed to be technically not feasible to adopt on-site meal portioning will be encouraged to explore other means to reduce food waste, including using reusable lunch boxes instead of disposable ones.

EDB would continue to collaborate with EPD and explore arranging sharing sessions with schools on the successful implementation of on-site meal portioning in schools.

- (b) measures to encourage schools to provide returns on food-waste quantities

It should be noted that schools may not have the required knowledge about how to measure food-waste quantities. Subject to EPD's issuance of guidelines to schools on methodologies of measuring food-waste quantities as recommended in the Audit Report, EDB stands ready to collaborate with EPD to encourage schools to submit returns on food-waste reduction quantities to be advised by EPD.

- (c) actions that will be taken to further promote green lunch practices among schools

Through circulars and guidelines, EDB will advise schools to formulate policies and follow the principles of reducing waste and minimizing wastage at all times in meal arrangements, and to implement appropriate measures to ensure that the lunch suppliers would provide students with healthy and green lunch.

Students' conscious effort to reduce food waste is a determining factor for the effectiveness of the measures. All along, elements of environmental education have been infused in different subjects of the school curriculum to nurture in students a sense of responsibility towards the environment and encourage them to take positive initiatives in improving the environment. EDB will continue its efforts to raise students' awareness and consciousness of environmental protection including reducing food waste through development of learning and teaching resources. In collaboration with EPD, professional development programmes will also be organized for teachers to enhance their professionalism and share the good practices of schools in this regard.

- (d) progress of following up with the four new schools installed with on-site meal portioning facilities not adopting on-site meal portioning (paragraphs 2.90 and 2.92 in Chapter 2 of the Audit Report refer)

EDB issued letters to the four schools in late November 2015 to ascertain the reasons for not implementing on-site meal portioning.

While one school has already implemented on-site meal portioning since the commencement of the 2015/16 school year, site visits were paid to the remaining three schools to understand the problems encountered. One school was found to have adopted food portioning in classroom which could achieve similar effect as on-site meal portioning. For the remaining two schools, despite the difficulties in implementing on-site meal portioning, they have also taken suitable green lunch measures, such as using reusable containers and cutlery. We will further liaise with these two schools in collaboration with EPD and offer assistance to help them overcome the difficulties. Other possible means to reduce food waste such as requiring lunch suppliers to portion cooked food and pack lunch in reusable and thermal containers before delivering to schools for distribution to students will also be explored.

- (e) actions that will be taken to ensure that new schools installed with on-site meal portioning facilities will adopt on-site meal portioning

During the design and building stage of the school premises, we would inform the school sponsoring body that on-site meal portioning facilities have been included as standard facilities and require them to adopt on-site meal portioning as far as practicable. Upon handing over of the school premises to the school, school development officers of EDB will follow up the implementation plan of the school and provide necessary assistance to ensure that the school will adopt on-site meal portioning unless there are exceptional circumstances with justifiable reasons.

In the light of experience and different practices of schools in implementing on-site meal portioning, EDB also plans to review and explore viable measures to facilitate schools to adopt different modes of meal portioning taking into account the diversified circumstantial factors and school-based needs.



中華人民共和國香港特別行政區政府總部教育局
Education Bureau

Government Secretariat, The Government of the Hong Kong Special Administrative Region
The People's Republic of China

香港添馬添美道2號政府總部東翼5樓學校行政及支援第一組

School Administration and Support 1 Section, 5/F., East Wing, Central Government Offices, 2 Tim Mei Avenue, Tamar, HK

本局檔號 Our Ref.: (33) in EDB(SA1)/SA/POL/10(II)

電話 Telephone: 3509 7456

來函檔號 Your Ref.: CB4/PAC/R65

傳真 Fax Line: 2572 5402

6 January 2016

Mr Anthony CHU
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road, Central, Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 2 of the Director of Audit's Report No.65
Reduction and recycling of food waste

With reference to your letter dated 30 December 2015, please find the enclosed information pertaining to items (a) and (b) set out in your letter at **Annex**.

Yours sincerely,

(Mrs HONG CHAN Tsui-wah)
for Secretary for Education

- c.c. Secretary for the Environment (fax no. 2537 7278)
Director of Environmental Protection (fax no. 2891 2512)
Secretary for Food and Health (fax no. 2869 4376)
Chief Executive, Hospital Authority (fax no. 2576 5050)
Commissioner of Correctional Services (fax no. 2583 9307)
Director of Housing (fax no. 2761 6700)
Director of Food and Environmental Hygiene (fax no. 2524 1977)
Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

Response to Public Accounts Committee regarding Chapter 2 of the Director of Audit's Report No. 65 Reduction and recycling of food waste

- (a) with reference to paragraph (b) of the Annex to your reply dated 22 December 2015, whether the Education Bureau (“EDB”) would in collaboration with the Environmental Protection Department consider organizing workshops for schools to explain the methodologies of measuring food-waste quantities

EDB will liaise with the Environmental Protection Department (EPD) on issuance of guidelines to schools on the methodologies of measuring food-waste quantities. In collaboration with EPD, EDB will arrange to explain the relevant details to schools through suitable means such as seminars, sharing sessions or workshops.

- (b) according to paragraph (d) of the Annex to your reply dated 22 December 2015, regarding the four new schools installed with on-site meal portioning facilities not adopting on-site meal portioning, one school has already implemented on-site portioning since the commencement of the 2015/2016 school year and another school has adopted food portioning in classroom which could achieve similar effect as on-site meal portioning. In this regard,

- (i) reasons for the remaining two schools not adopting food portioning in classroom which could achieve similar effect as on-site meal portioning

The two schools having difficulties in implementing on-site meal portioning (OMP) have already adopted other measures to practise green lunch, such as using reusable containers and cutlery. Though food portioning in classroom is developed by a few schools and has yet to be a common practice, we would encourage the two schools to adopt such a measure as far as possible to achieve similar effect as OMP.

(ii) measures that EDB has taken/will take to encourage schools to adopt food portioning in classrooms

EDB will work towards raising schools' awareness of the different means to reduce food waste. Through circulars and guidelines, EDB will include food portioning in classroom as an effective means to minimize food wastage in meal arrangements and encourage schools which are assessed to be technically not feasible to adopt OMP to take this as a green lunch measure. EDB will liaise with EPD to arrange sharing sessions with schools on the successful implementation of OMP including food portioning in classroom.

本署檔號
OUR REF: () in EP 165/P1/1T
來函檔號
YOUR REF:
電話
TEL. NO.: 3509 8617
圖文傳真
FAX NO: 2575 3371
電子郵件
E-MAIL:
網址
HOMEPAGE: <http://www.epd.gov.hk>

**Environmental Protection Department
Headquarters**

16/F, East Wing,
Central Government Offices,
2 Tim Mei Avenue,
Tamar, Hong Kong



環境保護署總部
香港添馬添美道 2 號
政府總部東翼 16 樓

2 December 2015

Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

(Attn: Mr. Anthony CHU)

Dear Mr. CHU,

**Public Account Committee
Consideration of Chapter 2 of the Director of Audit's Report No. 65**

Reduction and recycling of food waste

In response to your letter dated 25 November 2015, the Administration would like to provide the requested information with regard to the treatment capacity of the Kowloon Bay Pilot Composting Plant and the Organic Waste Treatment Facilities Phase 1 and 2.

Please find enclosed our submission (in English and Chinese) for Members' reference.

Yours sincerely,

(Elvis Au)

Assistant Director (Nature Conservation & Infrastructure Planning)
for Director of Environmental Protection

Encl.

c.c. Secretary for the Environment (fax no. 2537 7278)

Secretary for Education (fax no. 2810 7235)

Chief Executive, Hospital Authority (fax no. 2576 5050)

Commissioner of Correctional Services (fax no. 2583 9307)

Director of Housing (fax no. 2761 6700)

Secretary for Financial Services and the Treasury (fax no. 2147 5239)

Director of Audit (fax no. 2583 9063)

Legislative Council
Public Accounts Committee

Response from the Administration

The Administration to provide information on –

- (a) For the Kowloon Bay Pilot Composting Plant - how the 4 tpd food waste figure should be interpreted, i.e. whether it represents the net food waste quantity or includes other types of non-food-waste materials; and*
 - (b) For the Organic Waste Treatment Facilities (OWTF) Phase 1 and 2 - the daily capacities represents the net food waste quantity or includes other types of non-food-waste materials*
- (a) The Kowloon Bay Pilot Composting Plant (Pilot Plant) was the first pilot facility that the Environmental Protection Department set up to work jointly with the Commerce and Industry (C&I) sector on promoting food waste reduction and source separation. The deliverables aimed at gathering experience and information on the collection and treatment of organic waste thus facilitating future food waste recycling when the large scale organic waste treatment facilities for the C&I sector were ready for commissioning in accordance with the plan in the 2005 Policy Framework in December 2005. These objectives were presented to the Environmental Affairs Panel of Legislative Council (the EA Panel) in its paper CB(1) 1357/08-09 (03) on 27 April 2009 and CB(1) 1443/09-10(04) on 29 March 2010. As an educational and trial facility, the Pilot Plant was of a modest scale and adopted the aerobic composting technology that does not require complex engineering work. Furthermore, the quantity of source separated food waste sent to the Pilot Plant from the participating restaurants, markets and food manufacturers fluctuates depending on the daily operations and resources for practicing source separation. The 4-tpd of source-separated food waste figure as stated in the EA Panel papers referred to the total capacity of organic waste (including food waste, bulking agents (e.g. bark chips and saw dust) and premature compost) that the Pilot Plant could handle. The addition of bulking agents and premature compost was required to achieve composting of food waste though the exact proportion of them to food waste was subject to trial. Given the focus of the Pilot Plant is to deal with “food waste”, the paper referred to “food waste” instead of making differentiation between food waste and organic waste, the latter includes food waste, bulking agents and premature compost. The contract between the

Electrical and Mechanical Services Trading Fund (EMSTF) and its contractor specified that the total treatment capacity of the Pilot Plant was 4 tpd (including bulking agents).

- (b) For the OWTF Phase 1 and 2, the daily capacities are 200tpd and 300 tpd respectively. It should be noted that the food waste treatment processes adopted for OWTF-1 and 2 are different from the one adopted for the Pilot Plant. The latter adopts a one stage aerobic composting process to turn food waste into compost. On the other hand, OWTF-1 and 2 are designed for a 2-stages process, with stage 1 using anaerobic digestion (AD) as the core technology to produce energy; and stage 2 using composting to further process the residue to become compost as side products.

During the AD process, no bulking or other agent is required. Methane gas is generated by the microorganism for power generation. The digestate (or sludge) will be dewatered and sent to the composting building for composting. As composting is an aerobic process, bulking agent (saw dust and bark chips) will need to be added to increase the porosity of the mixture and allow air to pass through the mixture during the composting process.

The design of the OWTF-1 and OWTF-2 is/ will be for treating food waste of 200tpd and 300 tpd respectively in the AD system.

檔號

File No.

EP 165/08/231/1K

頁次

Page

1

M.1

SEN, (Agt) Supported. *May 5/8/10*

via PS(Env)

DD2

Disposal / n/a

We do not have expertise in the operation of these waste treatment facilities in the HK SAR. Therefore all waste treatment facilities are developed/operated under the DBO mode. The proposal to adopt parallel tendering approach is to enable the Administration to have a realistic (or reliable) cost estimate before going to LegCo for funding approval. The proposal is in this L/M is suggested.

PWP Item No. 172 DR

Organic Waste Treatment Facilities (OWTF), Phase I

Approval for Initiating Tendering before Funding is Secured

In the meeting with PS(Env) on 23 June 2010, it was agreed that the captioned project will adopt parallel tendering approach, f(1) refers. It is because the project is the first of its kind in Hong Kong so there is a relatively higher degree of uncertainty with its cost estimate. Further to the meeting, I write to seek your authorization for the initiation of tendering, prequalification included, for the captioned project before funding is secured in accordance with Financial Circular No. 2/2009.

Background

2. Biodegradable organic waste constitutes the largest portion of Municipal Solid Waste (MSW) disposed of in Hong Kong. "A Policy Framework for the management of Municipal Solid Waste in Hong Kong (2005-2014)" published in December 2005 suggested, amongst other, the implementation of biological treatment facilities to turn source-separated biodegradable organic waste from the commercial and industrial (C&I) establishment into useful products and to reduce landfill disposal.
3. The captioned OWTF Phase I development is to construct and operate a biological treatment facility with a capacity of 200 tonnes per day that recycle source-separated organic waste from the C&I sectors into compost and biogas through Anaerobic Digestion and composting technologies.
4. We propose to build the OWTF Phase I at Siu Ho Wan, North Lantau. In August 2008, we commissioned a consultant to carry out the Engineering

1/3/8

Feasibility and Environmental Impact Assessment (EIA) Studies for this OWTF, Phase I development under the Agreement No. CE7/2008(EP). We consulted the Islands and Tsuen Wan District Councils (DCs) about the project and the EIA findings during 2009 to 2010. Both DCs had expressed support to the project. The Advisory Council of the Environment (ACE) approved the EIA report at its meeting on 8 February 2010. The EIA for the project was approved by the EIAO authority on 24 February 2010.

5. The Engineering Feasibility Study of the project is substantially completed. The prequalification documents were completed with Development Bureau's comments incorporated.

Design-Build-and Operate (DBO) Contract and Prequalification

6. In line with other EPD waste facility projects, we propose to adopt the DBO contract for the OWTF Phase I development so that the future contractor would have the unity of responsibility in ensuring effective operation of the facility. This is particularly important in view of the fact that the project would be complex with adoption of advanced technologies and it would cover a long duration (15 years operation).

7. Given that there is no relevant approved list of tenderers for the project and the cost of tendering for a DBO contract would be very high, with reference to ETWB TC(W) No. 35/2004, f(2), we propose to prequalify suitable tenderers so as to facilitate subsequent tendering process.

8. We plan to seek the Central Tender Board's approval for the prequalification in August 2010. However, as item 172DR for the OWTF project is now only in the Category B+ of the PWP, in accordance with Financial Circular No. 2/2009 requirement, marked up copy attached at f(3), we need to seek your authority to initiate the prequalification before funding is secured, with a view to commissioning the OWTF phase 1 on time by 2013.

Exercise of Delegated Authority in Financial Circular No. 2/2009

9. Paragraph 6 of the Financial Circular No. 2/2009 stipulates the

conditions and obligations to be satisfied before granting the approval. I confirm the conditions and obligations are satisfied and is summarized at f(4) together with the justifications (in green) for your consideration.

Approval Sought

10. Your authorization is sought to proceed with the tendering exercise for the captioned project before funding is secured.



(P H LUI)

P (IP)

27.7.2010

Summary to Para 6 of FC No. 2/2009

In exercising the above delegated authorities, the relevant Directors of Bureaux (or their Permanent Secretaries) and Controlling Officers shall be accountable for their decisions in each case. They should satisfy themselves, before granting the requisite approvals, that the following conditions and obligations are met –

*(a) for consultants selection procedures, the **scope** of the assignment has been finalised and agreed by all relevant parties within the Government. For tendering to be initiated, the **detailed design** of the works project has also been finalised and agreed within the Government;*

This is a tendering exercise and the OWTF adopts DBO contract. Like all our DBO contracts, the detailed design will be furnished by the contractor. The tender documents which guide the contractor's detailed design will be circulated to all relevant parties for comment and agreement before issuing.

*(b) the approving authority has assessed the **risks** involved in initiating a procurement exercise before funding is secured. The risks to the Government of having to abort the procurement exercise due to lack of funding or substantive last-minute changes to the scope of the consultancy brief or proposed works have been assessed as low. Alternatively, despite the perceived risks, the possibility of abortive costs and inconvenience to bidders and tenderers, the merits of fast tracking have been assessed as outweighing the potential demerits; and*

This PWP item is now in Category B plus. Submission to PWSC for upgrading to Category A is targeted for November 2010. The key activity of the OWTF is well defined in the aforesaid consultancy study (para 4). The OWTF is being highlighted in CE's 2009 Policy Address. It is therefore imperative to take a fast-track approach to start the prequalification exercise, with a view to commissioning the facilities by 2013.

*(c) the procuring department reflects correctly in the tender documents or the consultancy briefs the funding status of the project and reminds all bidders that **Government is not responsible for their costs of preparing the bids.***

The Prequalification documents was completed and cleared by LAD. There is clause explicitly indicating that the Government are not responsible for the costs of preparing the prequalification submissions by the tenderers. We intend to put similar clause in the tender documents.

**Summary of key features/items added to the tender documents in 2013 for the OWTF Phase 1 project
as compared with that of the tender exercise in 2011**

Key Features/ items	Tender documents in 2011	Tender documents in 2013	Remarks
Procurement Approach	Prequalify tendering	Open tendering	<ul style="list-style-type: none"> • Adopting open tendering without prequalification to increase competition and shorten the tendering period.
Time for Completion	<p>Appendix A – General Information of the Form of Tender</p> <p>Time for Completion 730 days</p>	<p>Appendix A – General Information of the Form of Tender</p> <p>Time for Completion 820 days</p>	<ul style="list-style-type: none"> • Extending design and construction period from 24 months (approximately 730 days) to 27 months (approximately 820 days) could allow a number of activities to be carried out in sequences rather than in parallel and thus a reduction in labour demand and construction cost given the tight and uncertain labour market in the construction industry of Hong Kong at that

Key Features/ items	Tender documents in 2011	Tender documents in 2013	Remarks
			time.
Schedule of Milestones	<p>Appendix F – Schedule of Milestones of the Form of Tender</p> <p>25 numbers of milestone items</p> <p>8 numbers of items under SCHEDULE NO. MC1 MILESTONES FOR PRELIMINARIES AND GENERAL REQUIREMENTS</p> <p>2 numbers of items under SCHEDULE NO. MC2 MILESTONES FOR DESIGN OF THE WORKS</p> <p>15 numbers of items under SCHEDULE NO. MC3- MILESTONES FOR CONSTRUCTION OF THE WORKS</p>	<p>Appendix F – Schedule of Milestones of the Form of Tender</p> <p>63 numbers of milestone item</p> <p>25 numbers of items under SCHEDULE NO. MC1 MILESTONES FOR PRELIMINARIES AND GENERAL REQUIREMENTS</p> <p>10 numbers of items under SCHEDULE NO. MC2 MILESTONES FOR DESIGN OF THE WORKS</p> <p>28 numbers of items under SCHEDULE NO. MC3 MILESTONES FOR CONSTRUCTION OF THE WORKS</p>	<ul style="list-style-type: none"> Introducing more milestone payments (from 25 to 63) to reduce the financing costs during design and construction stage. In the revised milestone payment schedule adopted in the 2013 re-tender exercise, we introduced payment provision for the Contractor to receive intermediate payments commensurate with the percentage of works done under each milestone instead of just one single payment upon completion of the corresponding key component or system in question so as to reduce the financing costs and improve the cashflow to the

Key Features/ items	Tender documents in 2011	Tender documents in 2013	Remarks
			Contractor.
Guaranteed tonnage of food waste	There was no provision for guaranteed tonnage in the 2011 tender documents.	<p><u>Conditions of Contract</u> <u>Clause 71.4</u></p> <p><i>If the Minimum Tonnage of Treatable Waste to be treated at the Facility is not achieved in any month during the Operation, the Employer shall nevertheless ascertain the Operation Fees for the relevant month as if the Contractor had treated the Minimum Tonnage of Treatable Waste at the Facility for the said month.</i></p> <p><u>Appendix A – General Information of the Form of Tender</u></p> <p><i>Minimum Tonnage of Treatable Waste1,500 tonnes per</i></p>	<ul style="list-style-type: none"> Introducing a guaranteed tonnage of 50 tpd to share out the risk of waste quantity uncertainty.

Key Features/ items	Tender documents in 2011	Tender documents in 2013	Remarks
		<i>month</i>	
Specifications	<p><u>Specification Part C – Requirements for Electrical and Mechanical Works</u> <u>Clause 1.1.1.18</u></p> <p><u>The Contractor is required to provide the specified no. and type of redundancy units.</u></p>	<p><u>Specification Part C – Requirements for Electrical and Mechanical Works</u> <u>Clause 1.1.1.18</u></p> <p>The Contractor is allowed to propose the no. and type of redundancy units required in the design package.</p>	<ul style="list-style-type: none"> • Allowing the Contractor to propose own design and operational management regime rather than specifying the redundancy units to meet the service level requirements as an incentive to the Contractor to come up with optimized design to lower the construction cost as well as the maintenance cost.
Relaxation of height restriction	<p><u>Specification Part A – General Requirements</u> <u>Clause 3.1.1.6</u></p> <p>3.1.1.6 Portion 1 of the Site provides area available for construction of the Facility. For the avoidance of doubt, the</p>	<p><u>Specification Part A – General Requirements</u> <u>Clause 3.1.1.6</u></p> <p>3.1.1.6 Portion 1 of the Site provides area available for construction of the Facility. For the avoidance of doubt, the</p>	<ul style="list-style-type: none"> • Relaxing the building height limit from 20m to 25m to increase design flexibility. • The height of buildings at the Project site was restricted to a maximum of 20m under the Siu Ho Wan Layout Plan No. L/1-SHW/1.

Key Features/ items	Tender documents in 2011	Tender documents in 2013	Remarks
	<p>boundary of the Facility is within the boundary of the Portion 1 of the Site. The Contractor shall note that no part of any structure(s) or building(s) to be erected on this area may exceed the height of <u>20m</u> above mean formation level. Structure(s) or building(s) of other heights may be permitted subject to prior written approval from District Lands Officer. Any areas outside Portion 1 are designated as nonbuilding area for the purpose of access road and works area.</p>	<p>boundary of the Facility is within the boundary of the Portion 1 of the Site. The Contractor shall note that no part of any structure(s) or building(s) to be erected on this area may exceed the height of <u>25m</u> above mean formation level. Structure(s) or building(s) of other heights may be permitted subject to prior written approval from District Lands Officer. Any areas outside Portion 1 are designated as nonbuilding area for the purpose of access road and works area.</p>	<ul style="list-style-type: none"> During the review of 2011 tender exercise, it was observed that the height limit of the site had cost implications to the design of the treatment facilities. Owing to the height restriction of 20m, a number of smaller anaerobic digestion (AD) tanks were required to provide the required treatment capacity, which led to a higher construction cost as well as maintenance cost. If the height restriction was relaxed to 25m, a much more cost-effective design of AD tanks could be afforded. Therefore it was considered that the relaxing the building height limit of the project site from 20m to 25m could enhance the cost-effectiveness

Key Features/ items	Tender documents in 2011	Tender documents in 2013	Remarks
			of the project.
Natural Terrain Mitigation /Stabilization Works	<p>There was no natural terrain clause in the engineering conditions attached to the 2011 tender documents. Before the close of tender in November 2011, EPD had also taken the step to inform the tenderers on 21 September 2011 that slope mitigation and/ or stabilization works might be required and the Contractor would be informed and might be required to undertake the necessary slope mitigation and/ or stabilization and maintenance works via tender addendum.</p> <p>Tender Queries and Responses No. 2 issued to the Tenderers</p>	<p><u>Specification Part A – General Requirements</u> <u>Clause 3.4</u></p> <p><i>3.4.1.1 Engineering Conditions for the allocation of the Site to the Employer are given in Appendix A3.01 to the Specification Part A.</i></p> <p><i>3.4.1.2 Further to Clause 27 of the Conditions of Contract, the Contractor shall comply with the requirements of these Engineering Conditions in executing the Design, the Works, and the Operation, including but not limited to all liaison, coordination, submissions and any other obligations as the case</i></p>	<ul style="list-style-type: none"> When commenting on the Permanent Government Land Allocation (PGLA) for this project, it was noted that a natural terrain hazard study and any appropriate mitigation measures, if found necessary, should be carried out as part of the proposed development. While awaiting the Lands Department to finalize the engineering conditions for the PGLA, EPD had taken the step to instruct the Consultant to carry out the natural terrain hazard study (NTHS) to assess the requirements of the slope and natural terrain protection works. Before the close of tender in November 2011, EPD had also taken the step to

Key Features/ items	Tender documents in 2011	Tender documents in 2013	Remarks
	<p>dated 21 September 2011</p> <p>2. Tenderer shall also note that the Employer is arranging with concerned parties on the execution of the Natural Terrain Hazard Study (NTHS). The Contractor will be informed regarding the outcome of the NTHS.</p> <p>In case any slope mitigation and/ or stabilization works are necessary for the development of the Organic Waste Treatment Facilities, Phase 1, the Contractor will be informed and may be required to undertake the necessary slope mitigation and/ or stabilization and maintenance works. For the purpose of this</p>	<p><i>may be.</i></p> <p><u>Appendix A3.01 Engineering Conditions Issued by DLO to EPD</u></p> <p><i>Natural Terrain Clause (38)</i> <i>The site could be affected by potential geotechnical hazards in the form of landslips including boulder falls arising particularly from the area shown coloured 'green cross-hatched black' on the attached plan (hereinafter referred to as 'the Green Cross-Hatched Black Area'). The allocatee shall carry out all necessary geotechnical investigations, design, construction and supervision of mitigation/stabilisation works,</i></p>	<p>inform the tenderers on 21 September 2011 that slope mitigation and/ or stabilization works might be required and the Contractor would be informed and might be required to undertake the necessary slope mitigation and/ or stabilization and maintenance works via tender addendum.</p> <ul style="list-style-type: none"> • If the 2011 tender exercise was not cancelled on public interest ground, EPD could instruct the Contractor to carry out any necessary slope and natural terrain protection works via a variation order. • The necessary natural terrain and slope protection mitigation requirements had been properly incorporated in the 2013 tender

Key Features/ items	Tender documents in 2011	Tender documents in 2013	Remarks
	Tender, slope mitigation and/ or stabilization and maintenance works 'not within the Site are outside the scope of the Tender.	<i>and the maintenance of such works on the Green Cross-Hatched Black Area and on the site. A submission covering the investigation and design of all such works shall be made to the Geotechnical Engineering Office for checking.</i>	exercise.



Your Ref. : CB4/PAC/R65
Our Ref. : HD(EMU) 1/107/01
Tel. No. : 2129 3913
Fax No. : 3152 2053

23 December 2015
(Urgent by fax 25439197)

Mr Anthony Chu
Clerk, Public Accounts Committee,
Legislative Council Secretariat,
Legislative Council Complex,
Central, Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 2 of the Director of Audit's Report No. 65
Reduction and Recycling of Food Waste

I refer to your letter dated 15 December 2015.

Before responding to your three specific questions, I would like to provide some information on the background of the food waste recycling trial schemes, and our understanding of the government's policy and plan in respect of food waste.

The HA supports the government's environmental protection policies and plans. In respect of food waste, as noted in Audit Report No. 65, Chapter 2, paragraph 1.11, the government published "A Food Waste & Yard Waste Plan for Hong Kong 2014-2022" (the Food Waste Plan) in February 2014. We note from the 2014 Food Waste Plan that, among other things –

- (a) Among food waste management options, "prevent and reduce food waste at source" is the most important, and more important than "recycle to recover energy and nutrients";

香港九龍何文田佛光街33號房屋委員會總部

Housing Authority Headquarters, 33 Fat Kwong Street, Ho Man Tin, Kowloon, Hong Kong.

互聯網網址：

Internet Homepage Address: <http://www.housingauthority.gov.hk>

- (b) in the long run, food waste that cannot be avoided should be recycled as far as possible. In preparation for recycling, the Food Waste Plan envisages the need for arrangements to collect and deliver food waste, and for a network of organic waste treatment facilities;
- (c) going forward, the challenge is to continue to promote food waste reduction at source as our priority, while increasing the social momentum to separate waste as we start to build the network of treatment facilities.

The trial scheme that we have done was aimed at contributing to that “social momentum”.

Referring to your points (a) and (b), it is an indication of our tenants’ awareness that over 60% of respondent tenants would support and participate in food waste recycling if it was implemented at their estate. However, how many will actually practise food waste separation and collection in a sustained manner remains to be seen, and will depend on various factors. Some of the factors identified in our 2014 review of the trial schemes are relevant. These include –

- a) Location of food waste collection bins may affect participation. It would be more convenient to tenants if the bins are next to their blocks. In practice, location of bins will have to be determined taking into account the topography and layout of each estate and striking a balance between convenience and possible nuisance to residents;
- b) Food waste collection time and duration may affect participation. Longer collection hours are more convenient to tenants but may cause more nuisance, while shorter hours reduce nuisance but may be less conducive to participation;
- c) Incentive schemes, whether in the form of gifts or coupons, are useful and essential to arouse residents’ interest especially at the inception of the scheme; and
- d) Briefings, site visits to the recycling plant, leaflets and posters are effective tools to enhance residents’ understanding of food waste collection and recycling processes. Supervision and assistance to residents in sorting out and returning food waste at the beginning of the scheme in each estate are necessary.

There are probably other factors that we will need to consider. We will keep in view with EPD and our stakeholders on the subject.

In considering how to promote food waste recycling in PRH estates, we will need to bear in mind the above factors. Our review of the trial scheme has also identified other factors. For example, of the various off-site and on-site methods that

we have tried, the off-site approach seems more preferable, for reasons including the value for public money: the off-site approach involves less one-off and recurrent public money. Also, as noted in the Food Waste Plan, since most housing estates have limited space, on-site composting will have limited potentials. This underlines the importance of the availability of treatment facilities. Another factor that needs to be taken into account, in terms of value for money and sustainability, is the availability of delivery services to take food waste collected from households to the treatment facilities. We shall keep in view such developments in considering how to promote food waste recycling in PRH estates.

In the meantime, we think there is a clear case for doing what we can to promote reduction of food waste at source. The following lists some of our key initiatives so far –

- i) Since 2005, we have partnered with green groups to organise the “Green Delight in Estate” (GDE) which is a community-based programme to promote environmental protection. Under the programme, we organised a series of educational campaign to encourage cherishing food and reduction of food waste at source, which include :
 - ✧ *“Cherish food with reward”*, inviting residents to pledge for cherish food;
 - ✧ *“Food waste has value”*, inviting residents to provide recipes using food residue;
 - ✧ *“Empty your plate”*, encouraging residents to finish all food and not to leave food on the plate;
 - ✧ *“Eat light, Eat right”*, inviting residents to suggest “Eat light recipes”;
 - ✧ *“All about waste”*, using quizzes to promote environmental protection;
 - ✧ *“Waste Reduction Photo Competition”*, inviting residents to snapshot any environmental initiatives.
- ii) We have also produced two video clips namely *“Everybody Has Their Own Way to Save Food”* (一人一個「惜食」行動) and *“Go Green. Eat Light. So Easy!”* (環保輕食好 Easy) to promote eating “light” and environment-friendly, which were broadcast on our HA Housing Channel at the lift lobbies of domestic blocks;
- iii) We have launched another community-based programme, *“Let’s Join Hands to Reduce Waste in Our Estates”*, focusing on the key message that reducing waste at source, including food waste, is the responsibility of every resident.

- iv) Our canteen run by the HA Staff Club has recently signed up the Food-wise Charter with EPD to campaign reduce food at source and facilitate taking away unconsumed food, aiming to instil the food waste prevention and reduction culture to our staff.

All the above measures have achieved some results. Reduction of municipal waste including food waste is a long term effort and we have been tracking PRH waste production and reduction for some time. The waste production per person per day in our PRH has reduced from 0.82Kg in 2003/04 to 0.59Kg in 2014/15, representing a reduction of 28%. We will continue with such effort and launch campaigns and measures to try and further reduce PRH food waste.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Rosman Wai', followed by a horizontal line.

(Dr Rosman Wai)
for Director of Housing

c.c. Director of Environmental Protection (Fax : 2891 2512)
Director of Audit (Fax : 2583 9063)

Public Hearing of the Public Accounts Committee of the Legislative Council
Held on 15 December 2015
Director of Audit's Report No. 65
Chapter 3 – Use and Disposal of Vacant School Premises

Speaking Notes for the Secretary for Education

- First of all, I would like to thank the Audit Commission for its observations on the use and disposal of vacant school premises (VSP) and its recommendations for improvement. The Education Bureau (EDB) and relevant departments generally agree with the recommendations put forward in the Audit Report and will take follow-up actions accordingly.

Prevailing Mechanism

- Land is a precious resource in Hong Kong. Over the years, the Government has enhanced the mechanism for handling VSP on government land or private land granted to school sponsoring bodies by the Government. The prevailing mechanism was established and introduced upon discussion by the then Steering Committee on Housing Land Supply in October 2011. At present, when vacant/to-be-vacated school premises are identified, EDB will assess the need to reallocate such premises for school or other educational uses based on their size, location and physical conditions. Under the prevailing mechanism, having regard to the fact that VSP are purpose-built buildings for school operation, we will generally accord higher priority to put VSP to school use (e.g. primary schools, secondary schools, special schools and international schools) before considering other educational uses. Should EDB wish to deploy the VSP for other educational uses, we will need to put forward an application to the Planning Department (PlanD), similar to what other bureaux/departments are required to do.
- If EDB considers certain VSP not suitable for educational uses or does not envisage the need to reallocate the VSP for educational uses, we will “return” them and inform PlanD in accordance with the prevailing mechanism. PlanD will consider whether the sites concerned are suitable for residential development or other uses, with a view to meeting the various needs of Hong Kong.

Identifying VSP (Part 2 of the Audit Report)

- The existing database of VSP kept by EDB mainly contains information on VSP available to the relevant section since it was specifically assigned to handle VSP in July 2005, as well as information subsequently provided by the Regional Education Offices. As at 30 April 2015, the database contained information of 234 VSP. In response to the Audit's recommendations, EDB is reviewing the existing database of VSP with a view to making it as comprehensive and systematic as possible for better monitoring of the use and disposal of VSP. We will also draw up an internal manual to set out the requirements and guidelines on the identification, screening, allocation and management of VSP for all relevant EDB sections to follow.
- EDB will share information on VSP with PlanD and Lands Department (LandsD). We will also review the database of VSP against the particulars of de-registered schools and approach LandsD for checking of land leases in order to review as far as practicable whether any VSP have been “left out” and take follow-up actions accordingly under the

prevailing mechanism.

Allocating VSP for Educational or Other Uses (Part 3 of the Audit Report)

School premises not being used

- According to the Audit Report, of the 29 VSP under EDB's purview that were not being used, eight had not been earmarked for any use. Let me give the Committee a brief update here. First of all, EDB has already "returned" four of the eight VSP in accordance with the prevailing mechanism and both LandsD and PlanD have been notified accordingly. As for the remaining four VSP which are all on private land, we will liaise with LandsD on the possible ways of handling the VSP.
- Regarding the 12 VSP not yet put to their allocated uses, the latest development is that arrangements are being made for eight of them to be put to use, including the uses as time-limited primary school, primary school for whole-day conversion, primary school extension, secondary school extension and office.
- For the nine VSP earmarked for educational uses, we will continue to regularly review the need to retain them and the timeline of use. Where the VSP concerned are suitable for short-term use, we will follow the existing practice with EDB sections' reviewing the possible short-term use internally on a regular basis. We will also inform the relevant bureaux and departments, inviting them (including organisations under their purview) to consider short-term use of the VSP.
- EDB has also expedited the school allocation exercises. Over the past three years, eight VSP have been reallocated for school use and six of them are already in operation.

Handling cases of VSP not surrendered (Part 4 of the Audit Report)

- In addition, it is pointed out in the Audit Report that the physical possession of 71 VSP was not delivered to the Government after cessation of school operation, with 32 VSP not yet "returned" by EDB under the central clearing house mechanism which are situation on private land, and that nine of these VSP were not put to use as at 30 April 2015. EDB has already "returned" four of them in accordance with the prevailing mechanism and informed LandsD and PlanD accordingly. We will liaise with LandsD on the possible ways of handling the remaining five VSP.
- We agree that there is room for improvement in the handling of VSP, particularly those on private land. EDB will enhance its communication with LandsD and other relevant departments to follow up the respective cases with joint efforts. For VSP that EDB considers necessary to reallocate for educational uses, we will discuss with the relevant departments (e.g. LandsD) and consider recovering possession of the land as far as practicable in accordance with the provisions of the relevant contracts (including land leases, tenancy agreements or service agreements). We will keep improving our mechanism and measures to keep up with the latest developments in the society. However, I would like to point out that the Government must act in accordance with the contracts concerned and that recovering possession of land by exercising the right conferred by the contract may not be the only way to make good use of the land.

Property Management of VSP (Part 5 of the Audit Report)

- Finally, on property management of VSP, since property management services are not a common type of services used by EDB, our supplier lists do not cover providers of property management services. We are conducting more extensive research to identify other providers of property management services so as to compile a more comprehensive list of property management service providers for managing VSP.
- We will monitor the contractors' performance more closely. To this end, we are reviewing the inspection mechanism and will improve the reporting system to require the two existing contractors to prepare more comprehensive monthly reports on their work done. We will also properly evaluate the performance of the contractors upon completion of contract.

Summing up

- EDB, together with other relevant departments, will carefully consider and actively follow up with the Audit's recommendations on improving the use and disposal of VSP. We will elaborate further when responding to questions raised by the Public Accounts Committee of this Council in a while. Thank you, Chairman.



中華人民共和國香港特別行政區政府總部教育局
Education Bureau
Government Secretariat, The Government of the Hong Kong Special Administrative Region
The People's Republic of China

本局檔號 Our Ref.: EDB(SB) SA/6/8 II

電話 Telephone: 3509 8504

來函檔號 Your Ref.: CB4/PAC/R65

傳真 Fax Line: 2573 3467

31 December 2015

Mr Anthony Chu
Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

Consideration of Chapter 3 of the Director of Audit's Report No. 65

Use and disposal of vacant school premises

I refer to your letters of 17 and 18 December 2015 on the captioned subject. Please find attached the request information, except for item (f) and (t) as requested vide your letter of 17 December 2015. The outstanding information will follow shortly. Thank you.

Yours sincerely,


(Mrs Elina Chan)
for Secretary for Education

香港添馬添美道 2 號政府總部東翼 6 樓基礎建設及研究支援分部
Infrastructure and Research Support Division,
6/F, East Wing, Central Government Offices, 2 Tim Mei Avenue, Tamar, Hong Kong
網址 : <http://www.edb.gov.hk> 電子郵件 : edbinfo@edb.gov.hk
Web site : <http://www.edb.gov.hk> E-mail : edbinfo@edb.gov.hk

c.c. Director of Lands
Director of Housing
Secretary for Financial Services and the Treasury
Director of Audit

Consideration of Chapter 3 of the Director of Audit's Report No. 65
Use and disposal of vacant school premises

The Administration's Response to
Issues Raised in Letters of 17 and 18 December 2015

Letter of 17 December 2015

- (a) According to paragraph 2.7, there were 14 vacant school premises ("VPS") not included in the database of the 234 VSP kept by the Infrastructure and Research Support Division ("IRSD") of the Education Bureau ("EDB"). Please explain how the database of VSP are compiled by IRSD and the reasons for omitting the 14 VSP in the database;
- (b) According to paragraph 2.2(a) the VSP database was updated based on the information provided by the Regional Education Offices ("REOs"). Please explain why REOs were not aware of the existence of the 14 VSP within their regions? Have REOs conducted any physical inspection or stock-take exercise on the number of VSP within their regions to ensure accuracy of the VSP database?
- (c) Please provide details on the 14 VSP, including the year the school was built and ceased operation, reasons for vacating the premises, its size, location and physical conditions, its current use and land status;
- (d) What improvement measures had been/would be taken by IRSD to ensure that the database of VSP contained the most comprehensive and up-to-date information? How could IRSD ensure that all VSP are identified and included in the VSP database? and
- (e) Please provide a timetable for implementing improvement measures on the mechanism in identifying, compiling and maintaining information regarding VSP and management of the VSP database.

I.1 IRSD of EDB has been tasked to handle VSP since July 2005. Before that, there was no designated section within EDB specifically tasked to take care of the matter. A database on VSP was set up by IRSD with information available at that point of time. The database has been updated over the years mainly with input from REOs.

I.2 All along, individual school premises may become vacant for various reasons, e.g. after reprovisioning of a school to premises with better facilities, after a school has ceased to operate, after a school has merged with another school and started to operate from another location, etc. More premises have become vacant after the introduction of the policy on consolidation of under-utilised primary schools (“Consolidation Policy”)¹ in the 2003/04 school year. It was in this context that EDB started to handle VSP more systematically. Information on VSP before the implementation of the Consolidation Policy was however neither complete nor comprehensive. The database of VSP compiled based on the information available in 2005 could therefore not be regarded as a complete or comprehensive record on all VSP. In addition, the database was designed in a way that it contains all VSP that have been known to IRSD since July 2005 (e.g. 234 VSP was included in the database as at 30 April 2015 as stated in the Audit Report). It includes those VSP which have been or are going to be demolished for other uses, as well as those VSP that EDB have “returned” under the central clearing house mechanism, i.e. EDB has informed the Planning Department (PlanD) and relevant departments such as the Lands Department (LandsD) and Housing Department (HD) that the premises are not required by EDB for educational uses. “Return” of VSP by EDB in accordance with the central clearing house mechanism does not necessarily mean that the physical possession of the premises or sites where the VSP is located has been delivered when private land is involved.

I.3 The Audit Commission (“Audit”) conducted a sample check on the school registration database maintained by the School Registration and Compliance Section (“SR&C Section”) of EDB and noted 14 closed

¹ Under the Consolidation Policy, public sector primary schools failing to attract the minimum threshold number of primary school students would not be allocated primary one class.

schools and hence potential VSP were not among the 234 VSP included in the database of VSP. We have looked into these 14 cases in consultation with LandsD. Details of our findings are summarised at **Annex 1**.

I.4 Among the 14 cases, eleven of them involve private lots with no cessation of user clause in the land lease. Eight of the schools in question are/were private schools. As at 21 December 2015, 10 out of the 14 premises in question were in use and seven of them were for school use. In fact, it was found that four of them were “mistaken” as closed schools because of the change of the school name or the operation status of the schools in relation to the level of education services provided as captured in the registration records. For the remaining seven premises, one premises on private land was being used for other educational or welfare services, and two premises located on sites involving government land were deployed for community uses under Short Term Tenancy (STT) and Government Permit arrangements respectively by LandsD for the whole or part of the government land portion. As regards the four sites with premises remained vacant, three were located on private land and one on a site involving both private and government land. Of these four sites, one has been planned for conversion into a post-graduate hostel while LandsD was processing an STT application regarding the use of the government land portion on one site, and a temporary waiver application on a portion of the private land of another site. The remaining VSP was located on a private land with user clauses virtually unrestricted and with no cessation of user clause in the land lease.

I.5 Due to the reasons as set out in paragraph I.2 above, the current database on VSP could hardly capture all VSP, especially those vacated long time ago. EDB is reviewing the mechanism for data collection and updating, including the identification and categorisation of VSP, with a view to better monitoring and managing the use and disposal of VSP. We will also draw up an internal manual to set out the requirements and guidelines on the identification, screening, allocation and management of VSP for all related EDB sections to follow. Regarding the suggestion of reviewing and updating the database on VSP by making reference to the entries under the school registration

database, as illustrated in paragraph I.4 above, we are mindful that school closure as shown in the registration records might not necessarily lead to VSP. Nevertheless, to ensure that the database on VSP could be as comprehensive as practicable, we are going to conduct a stock-taking exercise by comparing the two databases to identify possible missed cases of VSP, if any. REOs will then conduct site visits to gather further information to ascertain whether the premises are indeed vacated. In parallel, we will seek LandsD's advice on the land status of these potential cases where appropriate, which is crucial information for consideration of possible follow-up action, if necessary. If the potential cases are confirmed to have given rise to VSP, we will update the database on VSP and follow up with the VSP based on the established mechanism accordingly. We aim at completing the abovementioned actions, which involve over 3,000 entries in the registration database, in six months' time. In addition, under the above-mentioned enhanced mechanism, SR&C Section will be required to inform IRSD whenever there is any new entry on school closure. IRSD will then follow up with the respective REO and LandsD for updating the database on VSP, and above all, to handle the new VSP, if any, according to the established mechanism.

- (g) At the meeting mentioned in (f), the Planning Department ("PlanD") would serve as a central clearing house to consider suitable alternative uses for VSP returned to the Government, but PlanD would not be the management agent for VSP before their reallocation. Please explain how the Government could ensure a timely and efficient disposal of VSP if no dedicated government department was to oversee such allocation; and**

Letter of 18 December 2015

- (a) A flowchart on the mechanism for handling of VSP, including actions to be taken for identifying, screening and assessing VSP, and procedures for putting VSP to different uses, the government bureaux/departments involved and their respective responsibilities, for VSP on (i) government land; (ii) private land, the lease of which contains a cessation/diminution of user clause; and (iii) private land, the lease of which does not contain a cessation/diminution of user clause.**

- (b) Details of the central clearing house mechanism as stated in paragraph 2.4 that a meeting was held by the then Steering Committee on Housing Land Supply in October 2011, which introduced the central clearing house mechanism for handling VSP in a coordinated manner.**

II.1 As advised by the Development Bureau and PlanD, the central clearing house mechanism for handling VSP is set out as follow:

- (i) once EDB confirms that the vacant or to-be-vacated school premises are no longer required by EDB for school or other educational uses and could be released, EDB would refer them to PlanD which would consider suitable alternative uses for the sites. For premises which were proposed to be used for other educational uses, EDB would put forward to PlanD its proposed use with justifications. PlanD, in its role as a “central clearing house”, would review these vacant or to-be-vacated school sites and consider whether such sites are suitable for Government, Institution or Community (G/IC) or other uses (including residential uses) in the long term, taking into account views from the concerned government bureaux/departments and relevant factors including the site context, surrounding environment, transport facilities etc.
- (ii) The focus of PlanD’s review is to examine the possible long-term uses of the vacant and to-be-vacated school sites and assess their potential for G/IC, residential or other uses. In general, alongside other land use reviews, PlanD may consider:
 - whether the sites have already been committed or proposed for other G/IC uses to meet the local/district need, having regard to the Hong Kong Planning Standards and Guidelines;
 - whether the sites are suitable for residential use having regard to considerations such as site area, land ownership, location, proximity to residential neighbourhood, compatibility with the surrounding areas, availability of

access and infrastructure, site constraints (remote location, very small site area, steep slope etc.), and whether the technical constraints for development are surmountable;

- whether the sites are suitable for G/IC uses and should be retained as a pool of undesignated G/IC sites to meet the community needs, having regard to the considerations such as physical setting, historical value (declared monument/graded historic building), in the middle of a G/IC cluster, proximity to recreational uses/tourist attractions, currently being used by non-government organisations for community uses on temporary basis, etc.; and
- whether the sites are within the study area of on-going planning/engineering studies or land use reviews.

II.2 Under the above-mentioned mechanism introduced in October 2011, PlanD serves as the central clearing house to consider suitable alternative uses for VSP “returned” or referred by EDB, while the management agent of VSP is determined by the VSP’s land status. For example, for VSP “returned” by EDB under the central clearing house mechanism with physical possession delivered to the relevant departments, management responsibility of VSP rests with the departments. For VSP located on private land of school sponsoring bodies (“SSBs”), the management responsibility of VSP rests with the relevant SSBs. EDB is responsible for the management of VSP located on sites under Permanent Government Land Allocation (“PGLA”) to EDB, including those which have been “returned” under the central clearing house mechanism but LandsD has requested EDB to continue managing VSP until the next users have been identified and the relevant PGLA are terminated. As far as EDB is concerned, management of the VSP pending re-allocation or “return” under the central clearing house mechanism or those on behalf of LandsD as mentioned above mainly includes security patrol and inspections, pest control, removal of litter, cleansing and weeding.

II.3 The flowchart on the existing mechanism for handling of VSP is at **Annex 2**. For VSP on government land “returned” by EDB, LandsD

has advised that they would handle such premises in accordance the mechanism set out in the flowchart at **Annex 3**. As for the use and disposal of VSP located on private land, we have liaised with LandsD on feasible improvement arrangements with due regard to the relevant land lease conditions. The proposed enhanced mechanisms are presented in the flowchart at **Annex 4**.

- (h) According to paragraph 2.12, IRSD would issue a list of VSP to subject EDB divisions half-yearly for them to make proposals on the use of VSP. How many schools have subject EDB divisions expressed interests on the use of VSP since 2005? How many schools were successfully allocated for use under this mechanism? For VSP included in the list but had not been earmarked by EDB divisions for any use, apart from circulating them half-yearly to EDB divisions, what further actions would IRSD take to promote their use? and**
- (i) What are the factors when EDB divisions assessed the VSP's suitability for their use? Is there any guidelines in this regard? If yes, please provide a copy of the guidelines.**

III.1 In assessing a VSP's suitability for educational use or whether the premises is needed to be re-allocated for school or other educational use, EDB will consider the size, location and physical conditions of the relevant premises. In addition, EDB will also take into account factors like the demand for public sector school places in the district, reprovisioning needs of existing schools especially those in the district and the need to provide diversity in the school system, with a view to meeting various educational needs in the territory and supporting relevant policy initiatives.

III.2 IRSD, on a half-yearly basis, circulates a list of new VSP and VSP not yet earmarked for any use to subject EDB divisions for proposals on educational uses and/or short-term uses (where appropriate), and a list of those VSP with earmarked uses to subject EDB divisions for their advice on the timeline of the proposed uses. Besides, IRSD also identifies suitable VSP for use upon subject EDB divisions' requests from time to time on a need basis. With inputs and updates from subject EDB

****Note by Clerk, PAC: Please see Appendices 32, 33 and 34 of this Report for Annexes 3, 4(a) and 4(b) respectively.***

divisions, IRSD also compiles and circulates, on a half-yearly basis, a list of VSP suitable for short-term use to relevant bureaux/departments (including the Home Affairs Bureau, Home Affairs Department, LandsD, PlanD, and Social Welfare Department) with a view to identifying short-term use pending the deployment of such premises for the designated use. From August 2005 to April 2015, 16 such exercises have been conducted. According to our records, EDB divisions have indicated interest in a total of 106 VSP for school or other educational use during these exercises. Among them, 67 VSP have been re-deployed or re-allocated for school or other educational use and nine are being earmarked for school or other educational use. As at 21 December 2015, one of the remaining VSP has been demolished, one has been deployed for other uses, 26 have been “returned” for consideration on alternative uses under the central clearing house mechanism and two are located on private land (including the one referred to in Case 6 of the Audit Report) and we would consult LandsD about feasible way forward under the relevant land leases (please refer to paragraph VI.1 below).

- (j) According to paragraphs 2.14 to 2.17, EDB provided information relating to the use and disposal of VSP to the Legislative Council (“LegCo”) from time to time. However, the information mainly covered primary schools that had ceased operation because of the Consolidation Policy since 2003/04 and did not cover all VSP in the database maintained by IRSD. Has EDB on any occasion disclosed to LegCo or its committees the total number of VSP and/or the use and disposal of VSP? If no, the reasons for not doing so.**

IV.1 The data on VSP released to LegCo were first compiled in relation to the questions raised by LegCo concerning the Consolidation Policy in the examination of estimates of expenditure in 2006. In addition, as mentioned in paragraph I.2 above, information on VSP before the implementation of the Consolidation Policy was neither complete nor comprehensive. Hence, for the sake of consistency and in light of the information available, we have been mainly adopting the Consolidation Policy as the framework for preparing subsequent VSP-related replies and information, and have set out the framework adopted clearly in the replies. We have also provided information on VSP outside the

Consolidation Policy upon request every now and then, but with a marker that the data provided might not be comprehensive given the limitations of our database.

(k) According to paragraph 2.22, of the 234 VSP in IRSD's database, 79 of them had undergone school improvement programme. Four of VSP vacated the premises before completion of improvement works and 22 vacated the premises within five years after. In this connection,

- (i) What were the criteria adopted by EDB in considering and approving schools' application for the programme?**
- (ii) Why did EDB still approve the school improvement programme for the 26 schools who vacated before or within five years after completing of improvement works?**
- (iii) Please provide the costs of the improvement works for these 26 schools.**

V.1 The School Improvement Programme ("SIP") was one of the recommendations made in the Education Commission Report No.5 released in 1992. SIP, implemented between 1994 and 2007 in five phases, aimed at progressively upgrading the teaching and learning environment of public sector schools built to old planning standards as far as practicable by providing additional spaces and facilities in order to meet the requirements necessitated by changes in curriculum and teaching approaches then introduced. All government and aided schools built to earlier planning standards were eligible to join SIP. The prioritisation of the improvement projects into different phases was based on various criteria including operational needs, age, size, utilisation, and physical condition of the schools. Unless classified as "SIP non-feasible" in terms of technical feasibility and/or assessed as not cost-effective², a school would be provided upgraded facilities according to the agreed scope of works under the relevant SIP phase. The total costs of the SIP works for these 26 schools were approximately \$380 million.

² A school would be taken as "SIP non-feasible" if there were problems like site constraints, geotechnical issues and limited room for significant improvement to facilities, which made the works either not possible or not cost-effective.

V.2 It is worth noting that generally speaking, an SIP project had to go through several years of planning before commencing the construction. The Government needed to conduct preparation work such as technical feasibility study, design, tenders etc. based on the information available at the time, and would review the actual situation of each project before construction. About 100 schools had withdrawn from SIP due to various reasons including cessation of operation, reprovisioning or in-situ redevelopment of the school, cost ineffectiveness, etc. Nevertheless, since it took time to plan an SIP project, changes in time and circumstances could lead to unforeseen development.

V.3 Under the Consolidation Policy introduced in the 2003/04 school year, public sector primary schools failing to attract the minimum threshold number³ of primary school students would not be allocated primary one class. As a result, some schools which had undergone or were undergoing SIP at that time would subsequently have to cease operation should they fail to meet the enrolment requirement. While striving to adhere to the principle of prudent use of public resources, the bureau at that time was also mindful that it would be unfair to those schools and students should the Government put a halt to the respective SIP works simply because of a possibility of under-enrolment in the future as SIP aimed at improving a school's facilities and in turn learning and teaching environment which did not fully meet the prevailing standard. Moreover, these public sector schools built to the old planning standards were generally less competitive in student admission than newly-built schools. Terminating SIP completely would diminish these schools' capacity of student admission and result in a vicious cycle. In addition, the need of the district as a whole on top of the condition of individual schools, including the need for school premises for whole-day conversion of existing primary schools and reprovisioning of existing schools, was also one of the considerations.

V.4 For the 26 VSP which had subsequently been vacated before or within five years after completion of SIP (including 14 cases which were due to drop in student enrolment), works continued to proceed due to the

³ The minimum threshold number was 23 between the 2003/04 and 2007/08 school year, 21 for the 2008/09 school year and 16 starting from the 2009/10 school year.

considerations set out in paragraph V.3 above, e.g. for whole-day conversion of other primary schools, for reprovisioning, extension or short-term use of other schools, etc. There were also cases where the schools were located in housing estates to be redeveloped but without any definite programme at the time SIP works was being carried out. Under such circumstances, SIP works continued to proceed such that students of the schools would not be deprived of the opportunity to enjoy improved facilities. Besides, some SIP works involved only minor improvement works or were near completion. Terminating the SIP works at that time would not be in the best interests of the schools and the students concerned, or a sensible course of action to take.

V.5 Although the 26 schools had ceased operation shortly before or after undergoing SIP, most of the school premises with improved facilities have been put into other uses afterwards. As at 21 December 2015, among these 26 VSP, 12 of them were deployed for school use, including for whole-day conversion, reprovisioning and extension of existing schools. Two of them were used for setting up time-limited primary schools and two for temporary use by international schools. Four were deployed for post-secondary and other educational uses, one used by a community organisation and one as an EDB office. Among the four remaining VSP, three had been demolished due to redevelopment of the housing estates and one had been “returned” by EDB under the central clearing house mechanism.

- (l) It is EDB’s policy to put VSP to gainful use in the shortest possible time. According to Table 5, there were 29 VSP under EDB’s purview that were not being used. Please explain why it took so long for putting the VSP into gainful use? Does EDB have a timetable of allocating the 29 VSP into gainful use? Would EDB consider setting a target on the vacancy period of the VSP for their optimal utilisation in an expeditious manner?**
- (m) According to paragraph 3.11, EDB has a mechanism in place to ensure that suitable VSP would be put to short-term gainful use as far as practicable. Please provide details of this mechanism. What actions had EDB taken to promote the short-term uses of the 29 VSP?**

- (n) Of the 29 VSP under EDB purview,**
- (i) According to paragraph 3.8 and Table 6, eight VSP not earmarked for any use under EDB's purview were located on private land. What actions would EDB take on these VSP? Please provide details of these eight VSP, including the address, the land status, whether the lease has a cessation/diminution of user clause which allows the Government to re-enter the site under certain circumstances, costs incurred by the Administration, if any, on managing/maintaining each of the VSP;**
 - (ii) Nine VSP earmarked for mainstream/temporary school use for an average of 3.9 years had not yet been allocated for such uses. What are the justifications for earmarking the VSP for such a long period of time without returning them to the Government for the consideration of alternative uses? Is there any mechanism for monitoring the earmarked VSP to ensure that they are put into gainful use as early as practicable?**
 - (iii) What are the reasons of not putting the remaining 12 VSP into allocated use?**
- (o) According to paragraph 3.22(a), EDB would review the 29 VSP not being used and considered returning VSP not suitable for educational uses to the Government as appropriate. What are the consideration factors when EDB conducts the review? What is the timetable for the review? and**
- (p) At the meeting of Panel of Education held on 11 June 2012, when discussing the item "Use and disposal of vacant school premises", a Deputy Secretary for Education said that the Administration had stepped up efforts to shorten the lead time required to recycle VSP to within three years. Is "three years" as mentioned a target for the disposal of VSP adopted by EDB? How did the Administration come up with the three-year figure?**

VI.1 We have reviewed the 29 VSP under EDB's purview that were not being used as at 30 April 2015. The latest development as at 21 December 2015 is as follows:

Eight VSP not earmarked for any use

- (i) four VSP located on private land were "returned" under the central clearing house mechanism and PlanD as well as LandsD have been informed accordingly; and
- (ii) for the remaining four VSP located on private land including the one referred to in Case 6 of the Audit Report, we would consult LandsD about feasible way forward under the relevant land leases.

Details are set out in **Annex 5**.

12 VSP allocated and not yet put to use

- (i) One VSP has been used by a primary school as extension since September 2015;
- (ii) Two secondary schools have used a VSP as a shared extension since June 2015;
- (iii) One VSP has been used by a primary school for whole-day conversion since September 2015;
- (iv) Three time-limited primary schools have commenced operation at three VSP since September 2015;
- (v) One VSP has been used as an EDB office since November 2015; and
- (vi) One VSP was handed over to an international school operator in November 2015 following the execution of a tenancy agreement.

For VSP allocated by EDB, there are uncontrollable or unforeseeable factors such as local concerns which may affect the use of some VSP. In addition, timetable for the related renovation or building works would depend on various factors including readiness of the projects and funding priorities. Nevertheless, EDB would closely monitor the follow-up

***Note by Clerk, PAC:** Please see Appendix 31 of this Report for Annex 5.

actions to avoid unnecessary delay in putting an allocated VSP to use as far as practicable. Among the four remaining VSP in question, one is located on private land and the SSB has applied to LandsD to deploy the VSP for operating kindergarten with EDB's policy support.

Nine VSP earmarked by EDB for educational use

We would continue to exercise stringent control by regularly reviewing the need to retain VSP for educational use and the schedule of use. The School Allocation Exercise of one of the VSP in question would be arranged soon. It is worth noting that to cater for expected or projected increase in demand in future, we need to earmark/reserve sites and VSP for school use (e.g. primary, secondary, special and international schools) for some time before proceeding with the allocation or releasing them in case it is confirmed that the site/VSP is no longer required. There is also a need to keep some VSP in hand to cater for uncertainties about the actual demand arising from parental choices and fluctuation of student population. Allocating three VSP in 2014 for use as time-limited primary schools from the 2015/16 school year to meet the transient increase in demand for primary school places in recent years was an example. For VSP located on Government land with identified long-term school or other educational use but would, for the time being, be available for short-term use, EDB would follow the existing practice to internally review possible short-term uses of these VSP and to invite relevant government bureaux and departments, including organisations under their purview to consider suitable VSP for short-term use on a regular basis (i.e. the mechanism as explained in paragraph III.2 above).

VI.2 As explained in paragraphs III.1 and VI.1 above, EDB would take into account a basket of factors when assessing the possible educational use of a VSP, and there is a need to retain some VSP to cater for the demand in future and the uncertainties involved. While EDB strives to facilitate the utilisation of VSP in an expeditious manner, it is not practicable to impose a fixed target on the vacancy period of a VSP. For example, demand for public sector primary school places is highly dependent on the district-based student population and is subject to changes and uncertainties due to parental choices and limitations of the projections. VSP allows the setting up of time-limited aided primary

schools in a timely manner, which is one of the flexible measures to meet the transient increase in demand. To cater for different educational needs, in particular in the long run, it is essential for EDB to keep a reserve of earmarked VSP. Setting a fixed target of vacancy period arbitrarily may also result in returning VSP in haste and compromising the flexibility required for meeting changing demand and various needs including reprovisioning of existing schools for improved learning and teaching environment or decanting of existing schools to facilitate in-situ redevelopment. To fully utilise the land resources, EDB would continue the existing practice to internally review possible short-term uses of VSP earmarked by EDB located on Government land, and inform relevant government bureaux and departments and invite them (including organisations under their purview) to consider VSP for short-term use on a regular basis.

- (q) Total cost incurred on the maintenance and management of VSP not allocated for any use in the past 10 years, with the number of VSP involved and a breakdown by year. Please provide details of the management of the VSP which is graded as a historical building, including the name and location of the VSP; and**
- (r) Measures taken by EDB for the management and maintenance of VSP to prevent illegal break-in or trespassing.**

VII.1 As mentioned in paragraph II.2 above, EDB is responsible for the management of VSP located on sites under PGLA to EDB, including those “returned” under the central clearing house mechanism but that LandsD has requested EDB to continue the management until the next users have been identified and the relevant PGLA are terminated. As far as EDB is concerned, management of the VSP concerned mainly includes security patrol and inspections, pest control, removal of litter, cleansing and weeding. Such VSP management services have been provided since 2007 on a daily, weekly or bi-weekly basis, depending on EDB’s assessment of the need, value and condition of the VSP concerned, as well as the cost involved. The total cost incurred since then has been about \$5.796 million and the breakdown is as follows:

Year	Management cost (\$) (rounded to nearest \$'000)	Number of vacant school premises included in that year
2007	277,000	11
2008	572,000	13
2009	468,000	12
2010	370,000	10
2011	676,000	13
2012	764,000	10
2013	747,000	15
2014	868,000	14
2015	1,054,000	13

VII.2 Among the vacant school premises managed by EDB, one VSP was classified as a Grade 1 Historic Building⁴ by the Antiquities Advisory Board in 2010. The VSP was used by another school as decanting premises from 2008 to July 2014. After the decanting use ended in July 2014, we have provided it with 24-hour property management services based on the advice from the Antiquities and Monuments Office (“AMO”). Routine management services as mentioned in paragraph VII.1 above were provided to this premises with due care to avoid causing disturbance or damage to the historic fabrics and structures thereon and thereof as per AMO’s advice. If there are any works to be done to the premises, we would provide AMO with the detailed works proposal for comments before commencement of the works.

VII.3 During the above-mentioned period, on top of the routine management services, housekeeping services such as reinstatement of wire fencing have also been carried out for sake of security. Should there be break-in cases, the responsible property management services company would report to the Police for investigation. EDB has also required the responsible property management services company to step up management services of those VSP with reported break-in cases. EDB has also requested the Police to step up patrol in the vicinity of such VSP.

⁴ According to the Antiquities Advisory Board, Grade 1 Historic Buildings is defined as buildings of outstanding merit, which every effort should be made to preserve, if possible.

- (s) **Information relating to school sponsoring bodies which have applied for new or vacant school premises in the past 10 years, including name of the school, type of education provided (i.e. primary, secondary, special education, international school), the year of application, size and location of the school, number of students, land status of the premises and the result of the applications.**

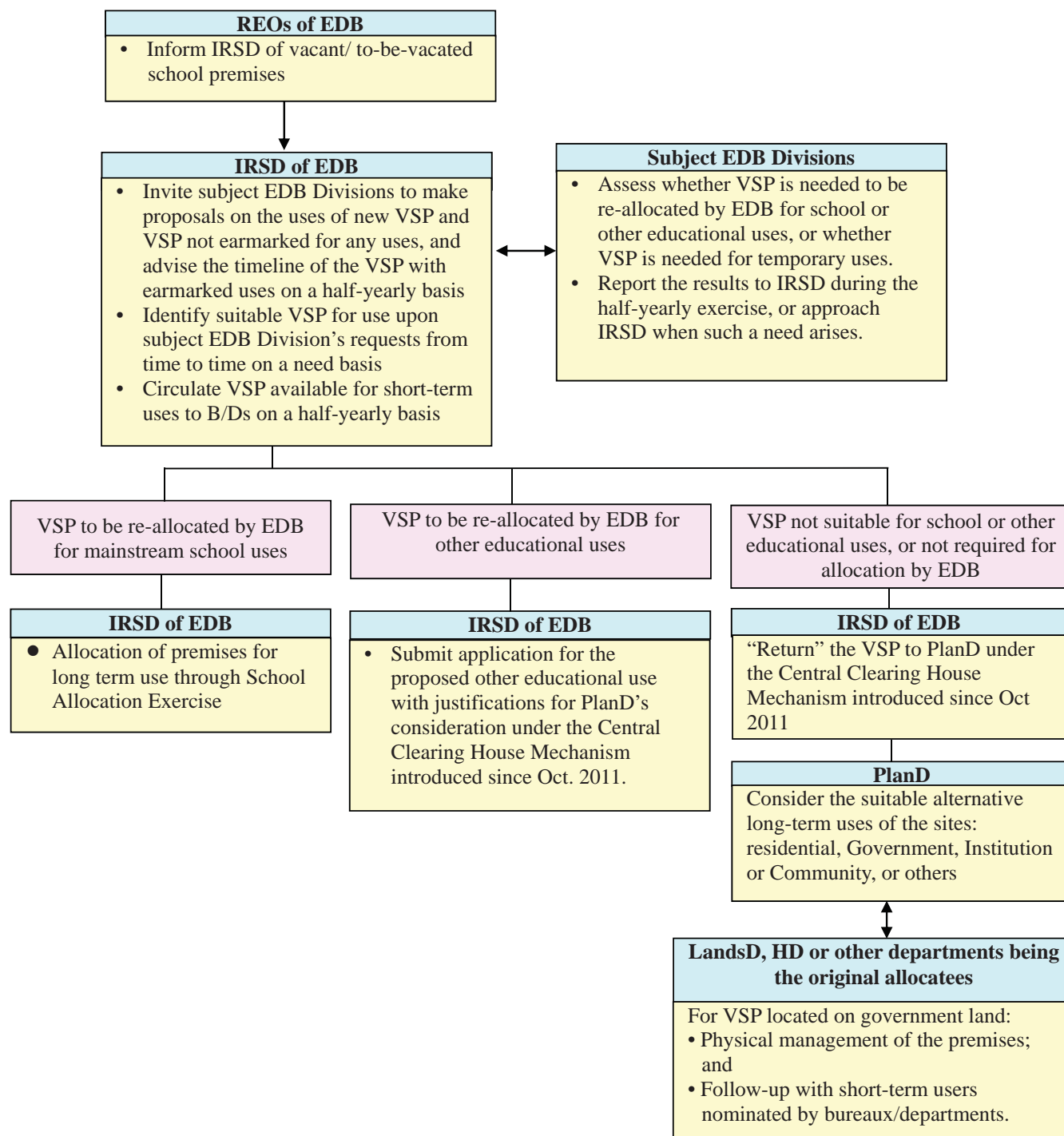
VIII.1 Information on allocation of new sites/premises and/or vacant school premises to school sponsoring bodies/applicants through School Allocation Exercises since 2005 is at **Annex 6**.

- (u) **Information relating to cessation of school operation because of the Consolidation Policy implemented in 2003/04, including name of the school that ceased operation, type of education provided, size and location of the school and number of classes and students before cessation, with a breakdown by year.**

IX.1 Information relating to schools which ceased operation under the Consolidation Policy since its implementation in the 2003/04 school year is at **Annex 7**.

***Note by Clerk, PAC: Annexes 6 and 7 not attached.**

Existing mechanism for handling vacant school premises



Annex 1

**14 vacant school premises (VSP) not on the VSP database maintained by
the Education Bureau (EDB)
Current status (as at 21 December 2015)**

	District	Land status	Current use	Cessation of user clause
1.	Eastern	Private lot	Private school	No
2.	Yau Tsim Mong	Private lot	Private school	No
3.	North	Consists of both Private lot and Government land (under Lands Department (LandsD))	For the Government land portion, partly used by a village office under Short Term Tenancy arrangement	No
4.	Tuen Mun	Consists of both Private lot and Government land (under LandsD)	Vacant, but LandsD was processing a Short Term Tenancy application for the Government land portion	LandsD could not trace the lease conditions for the private land portion
5.	Kowloon City	Private lot	Kindergarten, child care centre and seminary	No
6.	Eastern	Private lot	Aided primary school	No
7.	Wanchai	Private lot	Vacant	No
8.	Yuen Long	Consists of two private lots	Vacant, LandsD was processing an application for use as residential care home for the elderly on one of the two private lots	No

	District	Land status	Current use	Cessation of user clause
9.	Yau Tsim Mong	Private lot	Private school	No
10.	Shum Shui Po	Private lot	Private school	No
11.	Kwun Tong	Government land (under LandsD)	Used by a villagers fraternity association under a Government Permit	Not applicable
12.	Yuen Long	Government land (under EDB)	Aided primary school	Not applicable
13.	Central & Western	Private lot	Planned for post-graduate hostel use	No
14.	Island	Government land (under EDB)	Aided secondary school and primary school	Not applicable



中華人民共和國香港特別行政區政府總部教育局
Education Bureau
Government Secretariat, The Government of the Hong Kong Special Administrative Region
The People's Republic of China

本局檔號 Our Ref.: EDB(SB) SA/6/8 II
來函檔號 Your Ref.: CB4/PAC/R65

電話 Telephone: 3509 8504
傳真 Fax Line: 2573 3467

19 January 2016

Mr Anthony Chu
Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

Consideration of Chapter 3 of the Director of Audit's Report No. 65
Use and disposal of vacant school premises

Thank you for your letters dated 6 and 7 January 2016 on the captioned subject. Please find attached the requested information. Thank you.

Yours sincerely,

A handwritten signature in black ink, appearing to be "Elina Chan", written over a light blue rectangular background.

(Mrs Elina Chan)
for Secretary for Education

c.c. Director of Audit

Secretary for Development

Secretary for Financial Services and the Treasury

Director of Lands

Chapter 3 of the Director of Audit's Report No. 65
Use and disposal of a vacant school premises

The Administration's Response to
Issues Raised in Letters of 6 and 7 January 2016

- (a) Please set out the Education Bureau's ("EDB") policy in handling, managing and allocating vacant school premises ("VSP"). Please illustrate how the policy on VSP has been implemented regarding the 234 VSP listed on its database.**
- (b) For the 105 VSP not being used as at 30 April 2015, please indicate their status based on the procedures set out in the flowcharts on the mechanism of handling of VSP provided in Annexes 3, 4(a) and 4(b) of your reply dated 31 December 2015; and**
- (c) Whether EDB would consider setting an indicative timeframe for each procedure as stipulated in Annexes 3, 4(a) and 4(b) of your reply dated 31 December 2015, where appropriate, with a view to expediting the processing of VSP and facilitating the monitoring by the Legislative Council and the public.**

It has all along been EDB's policy objective to put VSP into gainful use. To achieve this policy objective, when there is a vacant or to-be-vacated school premises, EDB will consider the size, location and physical conditions of the relevant premises with a view to assessing the VSP's suitability for educational use or whether the premises is needed to be re-allocated for school or other educational use. In addition, EDB will also take into account factors like the demand for public sector school places in the district, reprovisioning needs of existing schools especially those in the district, the need for decanting premises for in-situ redevelopment or extension of existing schools, and the need to provide diversity in the school system etc., with a view to meeting various educational needs in the territory and supporting relevant policy initiatives. Once EDB confirms that the VSP are no longer required by EDB for school or other educational uses, EDB would refer them to the Planning Department (PlanD) for consideration of suitable alternative uses in accordance with the central clearing house mechanism.

- Appendix 27*
2. As mentioned in ~~EDB's reply on 31 December 2015~~ and in the public hearing held on 5 January 2016, there is a need to earmark/retain some VSP to cater for the anticipated increase in demand for school

places in future and for corresponding flexible arrangements in light of the uncertainties involved. It is therefore not practicable to impose a fixed target on the vacancy period of a VSP or the period of earmarking a VSP. The Infrastructure and Research Support Division (“IRSD”) of EDB, on a half-yearly basis, circulates a list of new VSP and VSP not yet earmarked for any use to the subject EDB divisions for proposals on educational uses and/or short-term uses (where appropriate), and a list of those VSP with earmarked uses to the EDB divisions concerned for update (if any) on the timeline of the proposed uses and invite them as well as other divisions to propose short term uses with reference to the timeline. Besides, IRSD also identifies suitable VSP for use upon subject EDB divisions’ requests from time to time on a need basis. With latest inputs from subject EDB divisions, IRSD also compiles and circulates, on a half-yearly basis, a list of VSP suitable for short-term use to relevant bureaux/departments (including the Home Affairs Bureau, Home Affairs Department (“HAD”), Lands Department (“LandsD”), PlanD, and Social Welfare Department) with a view to identifying short-term use pending the deployment of such premises for the earmarked use so that the land resources can be gainfully used.

3. Regarding the allocation of VSP for school use, EDB in general will openly invite eligible bodies in the territory to apply for the use of the relevant premises through the School Allocation Exercises (“SAE”). Applicants are required to submit application forms and other documents as needed. Allocation of school premises is generally conducted on a competitive basis amongst the applicants through SAE. In assessing the applications, quality of education is the prime consideration of the School Allocation Committee (“SAC”) (comprising both official and non-official Members). Other factors, e.g. the operation track record of the applicants (if applicable), the proposed school plans, etc., will be considered. When assessing the applications, SAC will give due consideration to each case before working out the recommendations for school allocation. If necessary, the applicants will be invited to attend an interview with SAC.

4. For VSP proposed to be redeployed for other educational use, EDB is required to put forward its proposed use with substantial justifications to PlanD for assessment and compete with other government departments on the use of such VSP.

5. The current VSP database of EDB contains all VSP that have been known to IRSD since July 2005. It includes those VSP which have been demolished or to-be-demolished for other use, as well as those VSP

that EDB have “returned” under the central clearing house mechanism, i.e. EDB has informed PlanD and relevant departments (e.g. LandsD and Housing Department (“HD”)) that the premises are not required by EDB for educational use. According to the findings in paragraph 3.5 of the Audit Report, as at 30 April 2015, there were 234 VSP in EDB’s database and their status were as follows:

- (a) 105 premises not being used, with 29 under EDB, 73 under LandsD and 3 under HD;
- (b) 102 premises being used, with 77 under EDB, 17 under LandsD and 8 under HD, Government Property Agency or HAD; and
- (c) 27 premises have been demolished or to-be-demolished for housing or other developments.

6. Regarding the 29 premises under EDB which were not being used (re paragraph 5(a) above), if the mechanisms as stipulated in ~~Annex 3, 4(a) and 4(b) of the EDB’s reply on 31 December 2015~~ are applied, the status of these 29 premises as at 21 December 2015 were as follows:

Appendices 32, 33 and 34

- For the four VSP located on private land which EDB had confirmed not required for allocation for school or other educational use, PlanD and LandsD have been informed under the central clearing house mechanism. LandsD will handle the four cases in accordance with the mechanism set out in the said ~~Annex 4(b)~~ ^{Appendix 34}. Three of these four premises do not have a cessation of user clause in the respective land leases;
- There were 19 premises located on government land and retained by EDB for school or other education use. Among them, seven premises have already been re-deployed and one premises has been handed over to an international school operator allocated with that premises following execution of the tenancy agreement. Of the remaining 11 premises not yet put to use, five premises have been earmarked for school use, four premises have been earmarked for temporary school use and two premises have already been allocated for school use; and
- For the remaining six premises located on private land, one of them has been allocated for other educational use and three premises are being used or have been planned for other educational use with EDB’s policy support. The service agreement of one premises

(Case 6 as mentioned in the Audit Report) contains a surrender clause and EDB is exploring with relevant departments on how to require the school sponsoring body (“SSB”) to carve out and surrender the relevant school site in accordance with the service agreement. As regards the remaining one premises, EDB will ascertain whether the premises is required for educational use and will follow-up with LandsD in accordance with the mechanism set out in ~~Annex 4~~^{Appendices 33 and 34}.

7. Regarding the three premises under HD on government land which have not been put to use, EDB is considering whether to earmark one of them for school use again. For details, please refer to ~~HD’s reply on 31 December 2015~~^{Appendix 37}. The remaining two VSP have been “returned” under the central clearing house mechanism, i.e. EDB has already informed PlanD and HD for consideration of alternative use. In respect of VSP under LandsD, we noted that the Public Accounts Committee Secretariat has separately written to LandsD for such information, and we therefore did not cover the same here.

~~Appendix 27~~^{8.} On the management of VSP, as mentioned in paragraph II.2 of ~~our reply on 31 December 2015~~, the management agent of VSP is determined by the VSP’s land status. For example, for VSP “returned” by EDB under the central clearing house mechanism with physical possession delivered to the relevant departments, management responsibility of those VSP rests with the departments concerned. For VSP located on private land owned by SSBs, the management responsibility of VSP rests with the relevant SSBs. EDB is responsible for the management of VSP located on sites under Permanent Government Land Allocation (“PGLA”) to EDB, including those which have been “returned” under the central clearing house mechanism but LandsD has requested EDB to continue managing the VSP until the next users are identified and the relevant PGLA are terminated. As far as EDB is concerned, the scope of management for those VSP mainly includes security patrol and inspections, pest control, removal of litter, cleansing and weeding. Such VSP management services have been arranged since 2007 and will be provided on a daily, weekly or bi-weekly basis, depending on EDB’s assessment of the need, value and condition of the VSP concerned, as well as the cost involved.

9. As mentioned in paragraphs 1 and 2 above, EDB would take into account a basket of factors and periodically assess the possible educational use of the VSP under EDB. Setting a fixed target of vacancy period or number of VSP arbitrarily may result in returning VSP in haste and compromising the flexibility required for meeting changing

demand and various needs, including reprovisioning of existing schools for improved learning and teaching environment or decanting use by existing schools to facilitate in-situ redevelopment or extension. With the policy objective of putting VSP into gainful use in mind, EDB strives to facilitate the utilisation of VSP in an expeditious manner. Notwithstanding, it is not practicable to impose a fixed target on the time allowed or a fixed timetable for the process.

(d) Is there any plan for EDB to enhance its database on VSP and/or registration database of schools by capturing more relevant information for better identification, categorization and disposal of VSP? If yes, please provide details and the timeframe. If not, the reasons for not doing so.

10. The existing VSP database of EDB, which has been set up based on information available in July 2005, captures the basic information of VSP, including the former school name, address, number of classrooms and special rooms, year of closure, site area (approximate), age of the premises (approximate), basic land status category (government or private land), etc. EDB is reviewing the mechanism for data collection and updating with a view to better identifying and categorising VSP from the perspective of the use and disposal of VSP, including better defining what constitutes VSP or VSP requiring handling. The land status and type of school will be main considerations. For this purpose, we will draw up an internal manual to set out the requirements and guidelines on the identification, screening, allocation and management of VSP for all related EDB sections to follow. We will also add the finance type of the former school and the information relevant to the land on which the VSP is located, including details about the type of land (e.g. whether the land is granted under a Private Treaty Grant), whether the lease contains a land use restriction clause and cessation of use clause, etc., with a view to stepping up the arrangements regarding the identification, assessment and handling of VSP. We aim at completing the abovementioned actions in six months' time.

(e) For Case 3 of the Audit Report, School U has been used for temporary school decanting use since December 2008 and is being used as a decanting site of an international school. In this connection, when will the current decanting exercise end? Is there any plan for the use of the premises after this decanting exercise? If yes, please provide details.

11. Regarding Case 3 of the Audit Report, the land grantee has

arranged the premises of School U for temporary decanting use by an international school during its redevelopment until July 2016 after obtaining the temporary waiver relating to the land use restriction from LandsD. EDB will liaise with LandsD on how to handle the premises after the expiry of the said temporary waiver, pursuant to the mechanism mentioned in ~~Annex 4 of EDB's reply on 31 December 2015.~~

Appendices 33 and 34

(f) How many VSP sites are current used for decanting purpose? Are there any plan(s) for using these sites for any other purpose(s)?

12. As mentioned in paragraph 3.5 of the Audit Report, as at 30 April 2015, 77 of 102 premises being used were under EDB's purview. Among these premises, six are now being used as temporary premises for decanting of schools under in-situ redevelopment or extension or phasing out during the transient period. These include four premises on government land and two on private land. The four premises on government land have been earmarked for educational use. EDB will review the relevant timetable and timely explore possible uses upon the expiry of the current decanting use in accordance with the established mechanism. Regarding the two premises on private land, EDB will deal with the premises according to the mechanism for handling VSP on private land (i.e. the mechanism in ~~Annex 4 mentioned in our reply on 31 December 2015).~~

Appendices 33 and 34

(g) Further to Annex 6 of your reply dated 31 December 2015, a list of school sponsoring bodies which were unsuccessful in applying new or vacant school premises in the past 10 years, including the year of application, the type of education intended to be provided, size and location of the school premises and reasons for not granting the new or vacant school premises by EDB;

Not attached

13. In Annex 6 of EDB's reply on 31 December 2015, we have provided a table listing out the information on SAE conducted since 2005, including the purposes of the respective exercise, the number, districts and location of the new sites/premises allocated, name of successful SSB/applicants, number of unsuccessful SSBs/applicants, and if VSP were involved, the names and year of cessation of school operation of the VSP concerned etc. Since all the information provided by the SSBs/applicant bodies to the Government in connection with applications for SAE can only be used for processing the SAE concerned, EDB is not able to disclose details of the unsuccessful applications to the Public Accounts Committee. This also avoids inappropriate labelling of the

applicants.

14. As mentioned in paragraph 3 above, once a VSP or to-be-vacated premises/school site is identified for school allocation, EDB will in general invite eligible bodies in the territory to apply for the relevant premises through SAE which is conducted on a competitive basis amongst the applicants. In assessing the applications, quality of education is the prime consideration of SAC. Other factors to be considered include the operation track record of the applicants (if applicable) and the proposed school plans, etc. In evaluating the school plans, aspects assessed by SAC include vision and mission, management and organisation, learning and teaching, school ethos and support for students, performance targets as well as self-evaluation indicators.

15. SAE is conducted in a fair and rigorous manner under the established mechanism. According to past experience, all successful applicant bodies possessed well-defined mission of school operation, vision for quality education and practical experience. The quality of the school plans submitted and the operating standard demonstrated were of excellent standard. In particular, their school plans were visionary, putting forward outstanding proposals to fully utilise the new school premises to further enhance the quality of teaching. Given the keen competition, it is not possible to allocate all applicants with school premises. Therefore, applicants which did not succeed in getting a school premises in SAE does not mean that their service standard is unsatisfactory. EDB will continue to provide VSP or to-be-vacated school premises/school sites for application for school use through SAE from time to time on a need basis.

(h)How will EDB exercise effective monitoring on the operation of international schools built on government land granted by private treaty grant at nil or nominal premium and/or provided with interests-free capital works assistance loans by the Administration? Are there cases under which the school sponsoring body does not comply with the conditions imposed by EDB in the past five years? What follow-up actions have been taken by EDB and/or other departments on these cases? [Letter of 7 January 2016]

16. Generally speaking, international schools operate on a self-financing and market-driven basis. The sponsoring bodies may decide on matters such as the curriculum offered, student mix as well as admission criteria and arrangements.

17. For SSBs allocated with VSP or greenfield sites by the Government for international school development, they are required to enter into Tenancy Agreement (TA) or Private Treaty Grant (PTG). According to the prevailing requirements, SSBs and the schools concerned must be organisations exempted from tax under section 88 of the Inland Revenue Ordinance (Cap 112), and they are required to submit annual accounts audited by certified public accountants under the Professional Accountants Ordinance (Cap 50) to EDB every year. In addition, if international schools would like to apply to EDB for reimbursement of rent and rates, the schools and SSBs concerned must be organisations exempted from tax under the Inland Revenue Ordinance (Cap 112) and be required to submit audited annual accounts to EDB.

18. Since 2008, any SSB allocated with VSP or greenfield sites for international school development is required to enter into a Service Agreement (SA) with EDB. SAs stipulate that the international schools operated and managed by such bodies must comply with the detailed school proposals they submitted under SAE, the school development plans, the Education Ordinance, the Education Regulations, specific conditions under SAE, other relevant laws, as well as other requirements and education policies applicable to international schools as promulgated by the Government from time to time. EDB would conduct on-site inspection visits to individual international schools, and examine the enrolment statistics and audited annual accounts submitted by the schools from time to time to check if the operation of these schools complies with the relevant requirements, e.g. the overall enrolment percentage of non-local students (i.e. those not holding HKSAR Passport or British National (Overseas) Passport). If any SSB breaches the provisions in SA, EDB will take follow up actions. Should an SSB be found to have committed any material breach of SA provisions, EDB is entitled to terminate or not to renew the SA and resume possession of the school premises.

19. In accordance with prevailing policy, subject to approval by the Legislative Council Finance Committee, the Government may provide interest-free capital works assistance loans to international schools allocated with greenfield sites for constructing the school premises. A loan agreement will be signed between EDB and the successful SSB applicant. The agreement will set out the repayment requirements, as well as arrangements in the event the school closes down or in case of default of repayment of the loan. It is common for international schools

to raise capital through introducing various schemes such as debentures, nomination rights or levy for the purpose of funding infrastructural projects in meeting the schools' longer term development needs and enhancing school facilities. EDB has all along requested SSB to consult parents and relevant stakeholders before introducing any such schemes, where the SSBs concerned should clearly explain the reasons for introducing the schemes and the related implementation details (e.g. re-sale and buy-back policy and the related administrative charges). EDB also encourages schools to set up different scholarships and tuition fee assistance schemes to support families in need.

20. In the past five years, no international schools have committed material breach of the provisions of SA or TA/PTG. Only a few schools have not met specific SA requirements in a timely manner, e.g. offering the specific number of places as set out in the school proposals, ensuring that a specific percentage of students are non-local students, etc. EDB has already requested the schools concerned to provide explanation and commitment to meet the relevant requirements within a specified time, and all such schools have followed up accordingly.

(i) Referring to Annex 7 of your reply dated 31 December 2015, which contains information on schools which ceased operation under the Consolidated Policy since 2003/2004 school year, please provide the following information relating to school number 22 and 24:

- i) current use of the VSP;**
- ii) whether the VSP is on government land or private land;**
- iii) if the VSP is on private land, whether there was a cessation/diminution of user clause in the land lease such that the Government has the right to re-enter the site; and**
- iv) whether physical possession of the VSP has been delivered to the Government; if not, the reasons. What actions will be taken by the Lands Department for taking back the site?**

21. Regarding school number 22 and 24 in Annex 7 of EDB's reply on 31 December 2015, EDB had "returned" the premises to LandsD in earlier years under the established mechanism. As the Public Accounts Committee Secretariat has separately written to LandsD, such information will be provided by LandsD.

Not attached

(j) the reasons for the substantial increase of management cost of VSP from \$868,000 in 2014 to \$1,054,000 in 2015 while the number of VSP had decreased in the same period.

22. The number of VSP under EDB's management contracts in 2015 had decreased by one and the management cost had increased by \$186,000 when compared to 2014. Apart from the increase in service charges under the new contracts, we have been arranging 24-hour property management for a VSP which was classified as a Grade 1 Historic Building since July 2014, i.e. six-month 24-hour management services were provided to this VSP in 2014, and for 2015, EDB needed to provide 24-hour property management services to this VSP for the entire year (12 months). As a result, the related management cost had increased.

政府總部
發展局
規劃地政科

香港添馬添美道 2 號
政府總部西翼



Planning and Lands Branch
Development Bureau
Government Secretariat

West Wing,
Central Government Offices,
2 Tim Mei Avenue,
Tamar, Hong Kong

本局檔號 Our Ref.

來函檔號 Your Ref.

電話 Tel.: 3509 8843

傳真 Fax : 2868 4530

22 January 2016
(By Fax: 2543 9197)

Mr Anthony Chu
Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

**Consideration of Chapter 3 of the Director of Audit's Report No. 65
Use and disposal of vacant school premises (VSP)**

I refer to your letter of 6 January 2016 on the captioned subject and would like to provide the information requested in paragraph 1(a) vide your letter.

(a) According to the meeting held by the then Steering Committee on Housing Land Supply (SCHLS) in October 2011, a central clearing house mechanism was introduced for handling VSP in a coordinated manner. It was agreed that the Planning Department ("PlanD") would serve as the central clearing house to consider suitable alternative uses for VSP returned by the Education Bureau ("EDB") to the Government. However, PlanD would not be the management agent for VSP before their reallocation. Please explain why PlanD is not assigned a greater role to coordinate and promote alternative uses for VSP amongst government bureau/departments. If PlanD is not tasked to oversee the allocation of VSP for its optimal use, how could the

Government ensure a timely and efficient disposal of VSP not required for educational purposes by EDB in a coordinated manner?

2. As requested by the Public Accounts Committee (PAC), the details of the central clearing house mechanism have been set out in paragraph II.1 of ~~the~~ ^{Appendix 27} ~~reply issued by the Education Bureau (EDB) dated 31 December 2015.~~

3. According to the established mechanism following the decision of the Steering Committee on Housing Land Supply in October 2011, PlanD serves as a central clearing house to consider suitable long-term alternative uses (e.g. Government, Institution or Community, residential and other uses) for vacant or to-be-vacated school sites when EDB notifies PlanD and other relevant departments that it no longer requires such sites for school use. If a long-term alternative use is identified, PlanD would proceed with the statutory rezoning procedures, if necessary, to facilitate development of the sites for the relevant uses.

4. For VSP falling on government land under the purview of different bureaux and departments, the relevant bureaux/departments are responsible for their disposal according to the long-term alternative uses identified by PlanD. The relevant bureaux/departments would, where appropriate, pursue and arrange short-term uses to ensure efficient use of land resources. For example, the Lands Department (LandsD) has disposed of individual sites on government land which were identified for residential use pursuant to PlanD's review of long-term use, as well as processed applications by bureaux/departments or private parties for making use of VSP compatible with the long-term land use zonings as advised by PlanD. For VSP on government land not immediately required for the long-term uses identified and under LandsD's control, LandsD has been endeavouring to put those VSP to gainful use by inviting users through circulation to other bureaux/departments as well as District Councils, District Offices and District Social Welfare Offices. The lists of sites are available in District Land Offices for public inspection by any interested party. For VSP on sites governed by private land leases and government land licences, LandsD would seek the return of the sites to the Government where such action is in line with the terms of the leases/licences.

5. The above deals with arrangements for putting VSP to gainful uses. As regards the day-to-day management of the premises, that was addressed in part II.2 of ~~the reply issued by EDB dated 31 December 2015.~~

^{Appendix 27}

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Cyrus CHEUNG', written in a cursive style.

(Cyrus CHEUNG)

for Secretary for Development

c.c. Secretary for Education

Secretary for Financial Services and the Treasury

Director of Lands

Director of Planning

Director of Housing

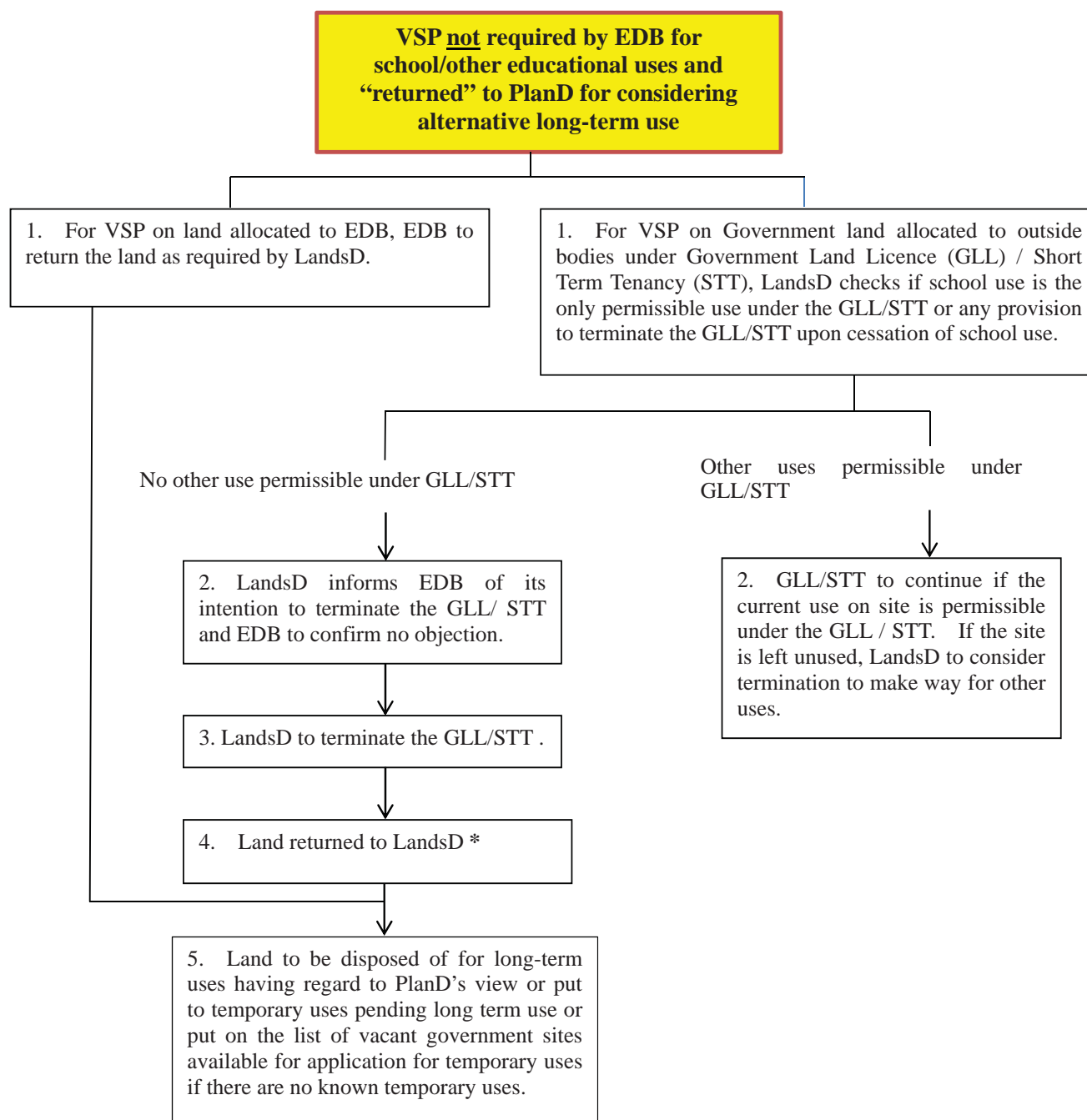
Director of Audit

**Eight vacant school premises (VSP)
under the Education Bureau (EDB) not earmarked for use as at 30 April 2015**

Current status (as at 21 December 2015)

	District	Land status	Cessation of user clause	Current status
1	Central and Western	Private lot	No	<ul style="list-style-type: none"> • EDB has raised no objection to the grantee's proposed hostel development to the Planning Department. • "Returned" by EDB under the central clearing house mechanism in November 2015.
2	Kowloon City	Private lot	Yes	<ul style="list-style-type: none"> • School Sponsoring Body (SSB) was considering turning part of the VSP into a kindergarten. • Waiver or lease modification is required.
3	Southern	Private lot	Yes	<ul style="list-style-type: none"> • Lands Department (LandsD) confirmed that lease modification for operating a non-profit-making club was completed in 2012. • "Returned" by EDB under the central clearing house mechanism in November 2015.
4	Southern	Private lot	No	<ul style="list-style-type: none"> • School was reprovisioned through the Third School Allocation Exercise 2006. • VSP required to be surrendered, but the carving out and surrender issue not yet resolved (Note: Case 6 in the Audit Report).
5	Sham Shui Po	Private lot	Yes	SSB was operating an international school at the premises.
6	Shatin	Private lot	Yes	Temporary waiver granted for SSB to use VSP for kindergarten use.

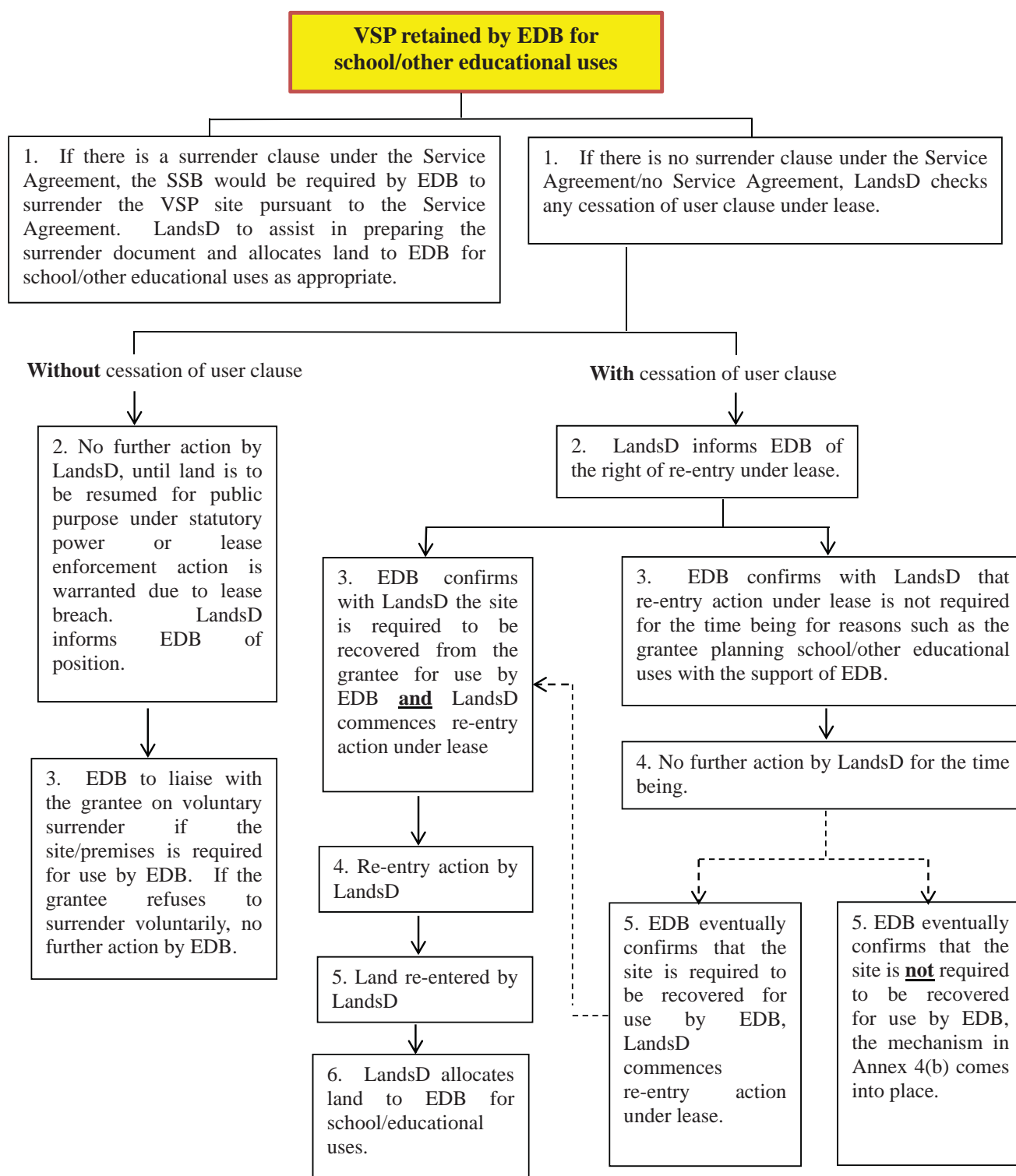
	District	Land status	Cessation of user clause	Current status
7	Wanchai	Private lot	No	<ul style="list-style-type: none"> • "Returned" by EDB under the central clearing house mechanism in July 2015. • Lease modification to permit development of a church and a complex for residential care home for the elderly and a senior hostel was being processed by LandsD.
8	Yuen Long	Private lot	No	"Returned" by EDB under the central clearing house mechanism in November 2015.

Annex 3**Existing mechanism on handling of VSP on government land**

*** If the licensee/tenant puts forwards a proposal to use the site (which may be for education or other purposes), LandsD will process the proposal in consultation with relevant policy bureaux, taking into account also any long term use identified by PlanD.**

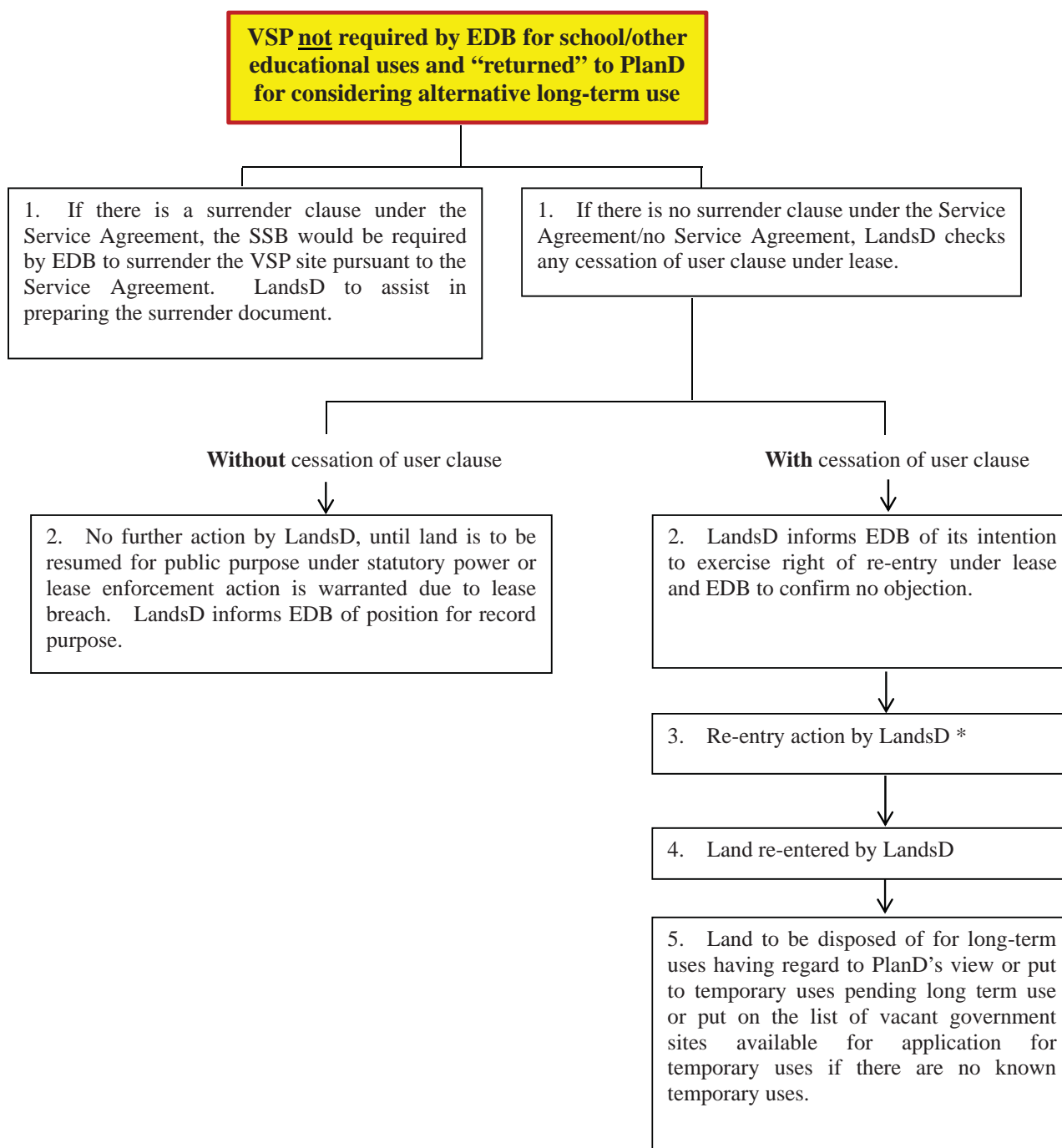
Annex 4(a)

**Proposed enhancement on the handling of VSP on private land
retained by EDB for school/other educational uses**



Annex 4(b)

**Proposed enhancement on the handling of VSP on private land
not required for allocation by EDB for school or other educational uses**



* If the grantee puts forwards a proposal to use the site (which may be for education or other purposes), LandsD will process the proposal in consultation with relevant policy bureaux, taking into account also any long term use identified by PlanD.

電話 2231 3000
圖文傳真 2152 0450
電郵地址 dofl@landsd.gov.hk
本署檔號 (41) in LDC 1/1800/15 Pt. 10
來函檔號 CB4/PAC/R65

覆函請註明本署檔號

Please quote our reference in response to this letter.



地政總署
LANDS DEPARTMENT

我們矢志努力不懈，提供盡善盡美的土地行政服務。
We strive to achieve excellence in land administration.

香港北角渣華道三三三號北角政府合署二十樓

20/F., NORTH POINT GOVERNMENT OFFICES
333 JAVA ROAD, NORTH POINT, HONG KONG

By Fax & Post
(Fax No. 2543 9197)

20 January 2016

Clerk, Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong
(Attn: Mr Anthony CHU)

Dear Mr. CHU,

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No.65
Use and disposal of vacant school premises ("VSP")

I refer to your letter of 6 January 2016 and provide herewith the information requested therein:

- (a) *referring to Annex 7 of the reply from Education Bureau ("EDB") dated 31 December 2015, which contains information on schools which ceased operation under the Consolidation Policy since 2003/2004 school year, please provide the following information relating to school number 22 and 24:*
- i) current use of the VSP;*
 - ii) whether the VSP is on government land or private land;*

- iii) if the VSP is located on private land, whether there was a cessation/diminution of user clause in the land lease such that the Government has the right to re-enter the site; and*
- iv) whether physical possession of the VSP has been delivered to the Government; if not, the reasons. What are the actions to be taken by the Lands Department (“LandsD”) for taking back the site.*

The 2 VSP are on Government land. Physical possession of the VSP in respect of School Number 22 has been delivered to the Government. It is one among the 22 cases mentioned in paragraph 3.15(b) of the Audit Report, i.e. Lands Department (LandsD) is considering an application for short term use pending long-term disposal of the site. The VSP of School Number 24 used to be governed by a Government Land Licence, and is one among the 10 cases mentioned in paragraph 3.15(c) of the Audit Report. The Government has not yet obtained physical possession of the site in view of the objection from local villagers having regard to the site history (that the land was freely donated by the villagers for operation of a school many years ago, and the construction costs of the school premises were funded by them at that time). The concerned party submitted an application for school use in late November 2015 and the application is being considered by LandsD.

- (b) for the 105 VSP not being used as at 30 April 2015, please indicate their status based on the procedures set out in the flowcharts on the mechanism of handling of VSP provided in Annexes 3, 4(a) and 4(b) of EDB’s reply dated 31 December 2015;*

Amongst the 105 VSP, 77, 25 and 3 are currently under the respective purview of LandsD, Education Bureau (EDB) and Housing Department (HD). LandsD will provide information on the 77 VSP while EDB would provide the information on the remaining 28 VSP under the purview of EDB and HD.

The 77 VSP (49 on government land and 24 on private land presented in Table 11 of the Audit Report as under LandsD’s purview as at 30 April 2015, plus 4 VSP presented in Table 11 as under EDB’s purview as at 30 April 2015 but have recently been “returned” by EDB for considering alternative uses) under LandsD’s purview are those not required by EDB for school/other educational uses and referred to PlanD under the central clearing

house mechanism. Their present statuses in handling are set out below in the context of ~~Annex 3 (for VSP on government land) and Annex 4(b) (for VSP on private land)~~ of EDB's reply dated 31 December 2015 to the Public Accounts Committee.

Appendix 32

(i) 49 VSP on Government land – ~~Annex 3~~ cases

- 41 VSP are at the stage of Action Step 5. Among them, two have been approved for alternative long-term uses and are pending site possession by the project proponents while 18 VSP have planned uses/applications being considered and processed by LandsD. The remaining 21 VSP are on the list of vacant government sites available for use on short-term basis.
- 8 VSP are now at Action Step 3, i.e. LandsD is taking action to either terminate the Government Land Licence or recover physical possession. In some of the cases the former licensees have objected to returning the sites to the Government for reasons that the school premises had been constructed at their costs and they wish to retain the premises for other uses. Pending the Government's identification of specific long-term uses for these sites, LandsD will continue to liaise with the concerned parties to arrange gainful use of the VSP during the interim. As at today, the concerned parties of 4 VSP have put forward proposals to retain the sites for short-term uses. These proposals are being considered in consultation with relevant bureaux/departments pending the identification of specific long-term uses by the Government.

Appendix 34

(ii) 28 VSP on Private land – ~~Annex 4(b)~~ cases

- 21 VSP do not have cessation/diminution of user clause under lease and Action Step 2 has been completed. No further action by LandsD is warranted at the moment.
- 7 VSP have cessation/diminution of user clause under lease (one of which has a cessation/diminution of user clause applying only to 1 out of 8 lots comprising the VSP) that allows Government to re-enter the land upon the cessation of school use. Actions have proceeded to

Action Step 3, i.e. re-entry action by LandsD; if the grantee puts forward a proposal to use the site for education or other purposes, LandsD will process the proposal in consultation with relevant policy bureaux, taking into account also any long-term use identified by PlanD – the lease in respect of 1 VSP was modified in 2012 to accommodate another non-profit making use; 2 VSP have proposals submitted for other uses which are being considered/processed by LandsD in consultation with relevant policy bureaux in accordance with the prevailing policy while LandsD continues actions to recover possession of the other 4 VSP.

- (c) *whether LandsD would consider setting an indicative timeframe for each procedure as stipulated in Annexes 3, 4(a) and 4(b) of the reply from EDB dated 31 December 2015, where appropriate, with a view to expediting the processing of VSP and facilitating the monitoring by the Legislative Council and the public;*

LandsD has been taking actions to recover possession of the VSP where appropriate, and put the VSP into gainful use. It may not be practical or appropriate to set a timeframe across-the-board for each procedure in ^{Appendices 32, 33 and 34} ~~Annexes 3, 4(a) and 4(b)~~ as the circumstances of each case vary. For instance, the conditions of the land lease or Government Land Licences vary and so do the responses of the concerned parties, attractiveness of the site for arranging alternative short-term use or local reaction to applications for alternative uses etc. However, LandsD will consider setting a timeline for bringing up the cases for review by senior officers at the district and headquarters level to strengthen the monitoring and review of progress throughout the work processes. The ultimate objective is to expedite the necessary follow up actions and resolve problems in good time, with a view to putting the VSP to gainful long-term uses or short-term uses in a timely manner.

- (d) *Table 8 of the Audit Report lists out some Audit findings on information about VSP provided by the District Lands Offices (“DLOs”). Please provide details, including the timeframe, of the improvement measures regarding the provision of information on short-term uses of VSP by DLOs.*

Internal guidelines are being prepared to standardize and refine the arrangements for making available the lists for public inspection at

the District Lands Offices. The guidelines are targeted to be issued in January 2016.

- (e) *referring to Table 11 of the Audit Report, there were 62 VSP on private land the physical possession of which had not been delivered to the Government. How many of these sites were granted by the Government under private treaty grant (“PTG”) to the relevant school sponsoring bodies? For those granted under PTG, do they all contain a cessation/diminution of user clause that allows the Government to re-enter the site?*

Among the 62 VSP, the sites of 30 VSP were granted by the Government by way of PTG¹. Among them, 27 have a cessation/diminution of user clause under lease that allows the Government to re-enter the site upon cessation of school uses. For the remaining three PTGs without the clause, two were granted by Government Leases in 1910 and 1920 at nil premium while one with Conditions of Grant dated 1963 was granted at premium.

- (f) *D of Lands had mentioned at the public hearing that there were 28 VSP located on private land the land lease of which did not contain a cessation/diminution of user clause (Table 11 of the Audit Report refers). Please provide details relating to these 28 sites, including forms of land grant, land lease conditions, any other specified purposes of the land and whether the land is granted at nil or nominal premium;*

Out of the 62 VSP on private land that has not been redelivered to the Government as indicated in Table 11, 28 VSP are covered under land leases which do not contain a cessation/diminution of user clause. Details of the grant and lease conditions are as follows:

- (i) The leases of 3 VSP in the New Territories are missing and therefore the history or lease conditions cannot be ascertained;
- (ii) 21 VSP in the New Territories are held under Block Government Lease or Old Schedule Leases which do not have specific user restrictions.

¹ PTG refers to land disposal by direct grant to an applicant.

- (iii) 1 VSP on Hong Kong Island was granted by land exchange at premium for the purposes of church and non-profit-making school.
- (iv) 3 VSP on Hong Kong Island were granted under PTG with the leases being virtually unrestricted. Among these cases, 2 were granted at nil premium in 1910 and 1920 and 1 was granted at premium under Conditions of Grant dated 1963.

Please let me know if further information is required.

Yours sincerely,



(Ms Bernadette Linn)
Director of Lands

c.c. Secretary for Development (Fax no. 2147 3691)
Secretary for Education (Fax no. 2810 7235)
Secretary for Financial Services and the Treasury (Fax no. 2147 5239)
Director of Audit (Fax no. 2583 9063)

電話 2231 3000
圖文傳真 2152 0450
電郵地址 dofl@landsd.gov.hk
本署檔號 () in LDC 1/1800/15 Pt. 9
來函檔號 CB4/PAC/R65

覆函請註明本署檔號

Please quote our reference in response to this letter.



地政總署
LANDS DEPARTMENT

我們矢志努力不懈，提供盡善盡美的土地行政服務。
We strive to achieve excellence in land administration.

香港北角渣華道三三三號北角政府合署二十樓

20/F., NORTH POINT GOVERNMENT OFFICES
333 JAVA ROAD, NORTH POINT, HONG KONG

By Fax & Post
(Fax No. 2543 9197)

30 December 2015

Clerk, Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong
(Attn: Mr Anthony CHU)

Dear Mr. CHU,

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No.65
Use and disposal of vacant school premises ("VSP")

Thank you for your letter of 17 December 2015. I provide herewith the information requested, following the paragraph numbering in your letter:

- (a) As per your letter dated 18 December 2015 addressed to the Education Bureau (EDB), Lands Department (LandsD) has provided our input to the flowchart showing the procedures for handling VSP.
- (b) As per your letter dated 18 December 2015 addressed to EDB, the information will be provided by the bureau.
- (c) While EDB's records indicate that the 73 schools have ceased operation for years (paragraph 3.14(a) of the Audit Report), it was since the inter-departmental meeting held in November 2005 as mentioned in paragraph 2.3 of the Audit Report that EDB started to

pass a list of VSP or school premises to be vacated to LandsD for reference and further action as appropriate. The notification arrangements were further refined after establishment of the central clearing mechanism as endorsed by the Steering Committee on Housing Land Supply in October 2011, with EDB notifying the Planning Department and other relevant departments including LandsD of VSP not required for school use.

However, notification by EDB of VSP no longer required for school/other education uses does not necessarily mean that the Government is having control over the land and the premises therein, as some of those VSP are situated on private land governed by land leases or situated on government land but held by external bodies through government land licences/short term tenancies.

For VSP on land returned to LandsD, we would arrange to put them into gainful use. Where a long-term use has been identified and agreed within the Government, LandsD will make arrangements to dispose of the site for the said purpose. Where implementation of the identified long-term use would take time or where a long-term use is yet to be determined, LandsD would try to put the site together with the VSP to temporary uses such as allocating it for use by government bureau/department, renting it out on short-term tenancy upon identification of a suitable temporary use, or including the VSP into the list of vacant government sites that are available in the relevant district for application for greening and community uses on short-term basis.

The current position and follow-up actions of the 73 VSP as at December 2015 are set out below:

- (i) 2 VSP have been approved for alternatives uses and are pending site possession by the project proponents. LandsD is liaising with the project proponents in order to put the VSP into approved uses.
- (ii) There were 22 VSP with planned uses/applications being considered and processed as at September/October 2015. LandsD is continuing with consideration and processing of 20 of them while 2 earlier planned uses/applications are no longer pursued by the concerned parties. These 2 VSP would therefore be included into the list of vacant government sites available for application for short-term uses.

- (iii) There were 21 VSP on the list of vacant government sites available for application for use on short-term basis as at September/October 2015. Two of these VSP have recently been earmarked by interested parties for consideration of alternative uses.
 - (iv) LandsD is taking action to recover possession of 10 VSP (with 4 under land leases carrying a cessation/diminution of user clause and 6 under government land licences) and will arrange to put them into appropriate permanent or temporary uses when physical possession has been obtained.
 - (v) 18 VSP are on private land for which there is no cessation/diminution of user clause in the land lease to allow the Government to re-enter the land after the cessation of school use. These 18 VSP remain in possession of private lot owners as the Government has no authority to ask for return of the private land simply because the schools thereon have ceased operation.
- (d) The 21 VSP are located in the rural areas of the New Territories or outlying islands. The majority of these VSP are unattractive for use due to their remote location with poor access. Some require substantial slope-related works or renovation works to the existing premises before they could be re-used. Some require planning permission before the premises could be put into other uses. Some applications for direct grant of these VSP had been received in the past but were subsequently not pursued due to various reasons such as local objections or the necessary policy support from the relevant bureau not being obtained by the applicants. It may be noted that applications for 2 of these VSP have recently been received from interested parties and they are currently being considered.

It is not a normal practice for LandsD to undertake improvement works for government sites/premises just for the sake of attracting applications for temporary uses. First, the improvement works would become abortive if the premises are not taken up in good time. Secondly, the improvement works may vary depending on the nature, duration and design requirements to suit the particular temporary use proposed by a project proponent. It would not be cost-effective for the Government to carry out some works in advance only to have such works altered by a project proponent

after the site/premises is granted. While the general expectation is for the project proponent to pursue any improvement works required for its proposal, it is for relevant policy bureaux supporting a particular use to consider whether, and if yes how, further assistance may be given by the Government in implementing the improvement works required.

- (e) As at December 2015, the planned uses/applications for 2 of the 22 VSP were not pursued further by the concerned parties. LandsD will continue processing the remaining 20 proposals with a view to putting them into gainful use as early as possible.

Among the 20 cases, the planned uses/applications were proposed in the following timing: 9 in 2015; 6 in 2014; 1 in 2012; 2 in 2010; 2 between 2005 to 2009.

The processing time required depends on individual circumstances. In an optimistic scenario assuming positive progress on all fronts, such as sufficient information on the proposal is available for assessment, policy support for direct grant to the applicant is given by the relevant bureau, government requirements are met by the applicant and no major objections received etc., we expect that an application for temporary use can be approved in about a year's time after the application is received. Disposal for permanent land uses can be more complicated and may take longer due to the possible need for conducting elaborate land use reviews, feasibility studies and statutory procedures. On present showing, we estimate that the processing of 13 cases will be completed within financial year 2016/17.

- (f) The 18 VSP are wholly or partly on private lots held by private land owners. As the sites were not granted by the Government to the lessees and have been privately owned before the schools existed, it is understandable that there is no cessation/diminution of user clause under the leases. In the circumstances, the Government has no right to demand surrender of the private land just because the school thereon has ceased operation. Same as owners of other private lots, the owners of these 18 VSP are at liberty to continue their use and enjoyment of the private land in accordance with the land leases. LandsD cannot take any action to take possession of the land, unless there is a breach of lease conditions warranting re-entry by the Government as the landlord or unless the land is

resumed for a public purpose under statute (see following paragraph).

Resumption of private land under the Lands Resumption Ordinance (Cap.124) is invoked only if the private land is required for identified public purpose(s) and compensation will be payable by the Government in accordance with the law. At present, we have not been advised of a need to invoke resumption powers to resume any of the 18VSP for a project of public purpose.

- (g) The management and maintenance of VSP under LandsD's control is performed as part of the land control work of individual District Lands Offices of LandsD. Generally, the work involves site cleaning, erecting government notice boards and fencing on site, grass-cutting as necessary and providing security service through stationing security guards on site or by patrolling. Worked out on a pro rata basis, the total cost incurred in the past 10 years on the maintenance and management of VSP under LandsD's purview (the number of which varies over time) is estimated at about \$7.6 million, averaging at about \$0.76 million per year. As this is an approximate figure worked out on a pro rata basis taking into account the pool of VSP out of land control work undertaken by the department, we do not have readily available information to work out a precise breakdown by year.
- (h) Measures taken by LandsD for the management and maintenance of VSP to prevent illegal break-in or trespassing include fencing off from public access, erection of warning notice boards, patrol by district land control staff or deployment of security guards through outsourced contractors.

Please let me know if further information is required.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Bernadette Linn". The signature is fluid and cursive, with the first name being more prominent.

(Ms Bernadette Linn)
Director of Lands

c.c. Secretary for Education (Fax no. 2810 7235)
Director of Housing (Fax no. 2761 6700)
Secretary for Financial Services and the Treasury (Fax no. 2147 5239)
Director of Audit (Fax no. 2583 9063)



香港房屋委員會

Hong Kong Housing Authority

Your Ref. : CB4/PAC/R6
Our Ref. : HD(P2)3/3/2/3
Tel.No. : 2761 5305
Fax No. : 2761 7620

31 December 2015

Mr Anthony Chu
Clerk, Public Accounts Committee,
Legislative Council Secretariat,
Legislative Council Complex,
Central, Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No. 65
Use and disposal of vacant school premises

I refer to your letter dated 17 December 2015.

2. At Members' meeting on 15 December 2015, we have provided summary information on the Ex-Free Methodist Mei Lam Primary School, and explained that we had decided not to pursue the option of using the School site for public housing for reasons including the small number of flats that could be produced, relative to the complexities in securing the agreement of the other owners under the Lease and in arranging for access to the School site. We also acknowledged that in hindsight, although it was a relatively small site we should have tried harder to come to a firm decision earlier on whether or not we could use the site for public housing. Pursuant to the Chairman's requirement we have been preparing further information for Members' reference. The following organizes such information along the line of the four questions in your letter under reference.

香港九龍何文田佛光街33號房屋委員會總辦事處
Housing Authority Headquarters, 33, Fat Kwong Street, Ho Man Tin, Kowloon, Hong Kong.
互聯網網址 :
Internet Homepage Address: <http://www.housingauthority.gov.hk>

(a) Details of the VSP which was not being used, including the name of the school, size, location and physical conditions of the premises;

3. The School was built to the prevailing standard for a 24-class primary school, and occupies a site of around 0.48 hectare. It is situated in a Public Rental Housing (PRH) estate, Mei Lam Estate, Sha Tin. A map of the School and the Estate is at **Annex A**.

4. Mei Lam Estate is a comprehensive public housing development completed in 1981, comprising four domestic blocks providing 4 100 units, a shopping centre cum carpark block, other ancillary retail, carparking and welfare facilities, an indoor recreation centre, five schools and a public transport terminus. Apart from the School, there are four other schools within the estate. The five schools, the indoor recreation centre and the public transport terminus are Government Accommodation. The retail and carparking facilities in the estate were divested to the then The LINK in 2005. The four domestic blocks are owned by the Housing Authority (HA). The owners jointly share the Estate Common Areas and Facilities, which include open area, playground, loading and unloading facilities and estate road serving individual buildings and facilities within the estate and providing access to the public road, Mei Tin Road.

5. Arising from the divestment in 2005, the estate is covered by a Government Lease. The Lease specifies various restrictions on use and development, including specifically that Government, Institution and Community facilities comprising five schools having a total gross floor area of 37015 square metres should be provided within the estate. In addition to the Government Lease, there is a Deed of Mutual Covenant (DMC) setting out the rights and obligations of owners, occupiers and property manager in respect of the use, maintenance and management of their properties as well as the area/properties co-owned by all owners in the estate.

6. Changes to the use of buildings and estate common areas in ways other than stipulated in the Lease and the DMC require the consent of other owners, and the approval by the Government for changes of use and gross floor area under the Lease.

***Note by Clerk, PAC: Annex A not attached.**

(b) Reasons for not allocating the VSP for any use; and

(d) A timeline with actions taken by HD in the past 4.6 years in assessing and considering how the VSP could be put into optimal use, including copy of correspondence with relevant government departments

7. While the School site has ceased to be used as a school for 4.6 years, it was only allocated to the Housing Department (HD) by the central allocation mechanism for consideration of use for public housing in May 2012. There had been various lines of study exploring how best to use the School's site, including –

- (a) in the context of HA's policy for redevelopment of PRH estates;
- (b) in the context of redevelopment of PRH blocks or other premises in lots involving multiple ownership;
- (c) studies specific to the School site.

Since these lines of study took place in parallel and intertwined with each other, it is difficult to present a single time-line, and it might be less confusing if we first give an account of (a) and (b) above, before focusing on (c).

8. On (a), what should be HA's general approach to the redevelopment of PRH estates had had a bearing on deliberation on options for using the School site for public housing. In November 2011 HA's Strategic Planning Committee discussed redevelopment of aged PRH estates. The meeting established a refined redevelopment policy under which HA is to consider each redevelopment proposal by reference to a set of criteria. The School site was mentioned as an example.

9. Since then, in the context of the formulation of the Long Term Housing Strategy(LTHS), redevelopment of PRH estates featured in various public discussions, including discussions in the Panel on Housing's Sub-committee on the LTHS. Director of Audit's Report No. 62 and the Committee's Report on the Director's Report also touched on the subject. The Subcommittee's Report and PAC Report No. 62 were published in July 2014.

10. Taking into account these discussions, the government's LTHS promulgated in December 2014 sets out a strategy for the redevelopment of PRH estates. An extract is at **Annex B**. In gist, considering that while redevelopment may increase PRH supply over the long term it will in the short term reduce PRH stock, LTHS stipulates that HA will only consider redevelopment on an

***Note by Clerk, PAC: Annex B not attached.**

estate-by-estate basis.

11. On (b), redevelopment of a land lot in whole or in part is generally more complex, involving more time, costs, and uncertainty, when there is multiple ownership. The School site is one of such cases, because under the lease HA and Link REIT are co-owners, and redevelopment of individual buildings or comprehensive redevelopment would require the consent of all parties, and the government's approval of modifications to the Lease. During the period there had been discussions involving government departments and Link REIT, in which various options had been raised, which in the case of the School site include –

- (a) modifications to the Lease by consent of all owners, in ways that are required for redevelopment of the School site and the associated use of common areas including the estate road, or for more comprehensive redevelopment involving further portions of the lot;
- (b) HA and Link REIT surrender to the government portions of the lot including the School site, free of encumbrances and costs, and the portions are then granted to the HA by way of vesting order for PRH development;
- (c) resumption by government of the School site or further portions of the lot.

12. Whether there is a feasible way forward to resolve such issues had had a bearing on deliberation on options for using the School site, because compared to the relatively small size of the School site and therefore limited yield, we would need to consider the priority for pursuing such options if the way forward involves disproportionate time, costs and uncertainty. After mid 2015 we concluded that in the current circumstances we should not give priority to the options in (a) to (c) above.

13. In parallel with studies and discussions on the above two general questions, we conducted studies and discussions specific to the site, of which the key developments are summarized below.

14. In May 2012, the Education Bureau (EDB) confirmed that the School premises was no longer required by EDB for re-allocation for educational uses and was returned under the central clearing house mechanism reallocation. EDB's memo

dated 10 May 2012 at **Annex C** is relevant, which encloses various lists, one of which mentions the School for central reallocation.

15. In January 2013 the Sha Tin District Management Committee discussed the use of the School site. Minutes of the meeting are at **Annex D**. In July 2013, HD prepared the model planning brief for using the School's site at **Annex E**. This was a draft of a planning brief outlining an option for using the School site, and identifying areas requiring further work and input. Among other things, it was noted that due to the limited site area of about 0.48 hectare with about 500 PRH flat production, the supporting facilities such as educational, recreational, public transport facilities etc., would have to be catered for the adjacent provisions while the right-of-way issue for vehicular/pedestrian access to the proposed housing block needed to be resolved. Subsequently, HD prepared revised model planning brief and information on existing facilities in Mei Lam Estate. The revised model planning brief and the information sheet on existing facilities are at **Annex F**. It continued to note areas requiring further studies.

16. In December 2014, the government promulgated the government's Long Term Housing Strategy. Finally, in October 2015, HD formally informed the relevant departments to consider alternative use of the School site. In November 2015, EDB indicated the intention to re-use the School site for educational purpose.

17. As noted above, the studies and discussions on the two general questions above had affected how much resources and priority we had given to push forward with technical studies and discussions on options for using the School site for public housing, because the determination of the two general questions would fundamentally affect designs for the project. Notably, in the past few months in 2015, we have had detailed discussions to establish among relevant departments the circumstances and ways in which we can use resumption to pursue redevelopment in whole or in part in cases of multiple ownership, for reference for the case of the School site and future cases. While such discussions have not changed our stance on the School site, they are useful for future cases.

18. As we have said at Members' meeting on 15 December, looking back we agree with the Director of Audit that we should have worked harder to come to a firm view as early as possible on whether or not we could use the site for public housing.

***Note by Clerk, PAC:** *Annexes C to F not attached.*

(c) Total cost incurred on the maintenance and management of the VSP

19. The School site has all along been locked up and HA's property management agency keeps surveillance on it by daily patrol at the surrounding area. Repair and maintenance is arranged on need basis which is mainly related to safety concern. As the School is generally in an acceptable physical condition, the recurrent maintenance cost for the past few years are solely for the annual inspection fee on the Fire Service Installations which is around \$4,500 per year.

Yours sincerely,



(Mr Theron CHAN)
for Director of Housing

c.c. Secretary for Education	(Fax : 2810 7235)
Director of Lands	(Fax : 2152 0450)
Secretary for Financial Services and the Treasury	(Fax : 2147 5239)
Director of Audit	(Fax : 2583 9063)
Director of Planning	(Fax : 2881 6402)

**Legislative Council Public Accounts Committee
Public Hearing on the Director of Audit's Report No. 65
Chapter 5 – Operation of the Hongkong Post**

**Opening Remarks by Mr. Gregory SO Kam-leung,
Secretary for Commerce and Economic Development**

Mr Chairman,

First, I would like to thank the Director of Audit for carrying out the value for money audit on the operation of the Hongkong Post (HKP). My thanks also go to the LegCo Public Accounts Committee (PAC) for choosing this subject for the hearing so that the Government could have the opportunity to explain the operation of the HKP.

2. The Government accepts in general the comments made by the Director of Audit on the operation of the HKP. The HKP is taking forward the implementation of the Audit recommendations to enhance the operation of the department.

3. The Commerce and Economic Development Bureau (CEDB), as the policy bureau for the HKP, has been closely monitoring the operation and finance of the HKP and conducting regular review with the HKP of its business strategy, operational performance and financial performance. The HKP, operating in the trading fund mode and remaining as a government department, is able to manage resources in a more flexible manner and formulate suitable business strategies in light of changes in the market and business environment while maintaining service quality. In fact, the HKP has been striving to explore new revenue streams and achieve savings within the scope of the existing regime. In recent years, a range of measures have been adopted to manage costs, enhance operational efficiency, develop new business and boost revenue. The Post Office Trading Fund achieved an operating surplus of \$160 million in the 2014-15 financial year after years of deficits. The HKP also fulfilled all its performance pledges while maintaining the postage rates and other services at reasonable levels in the same year.

4. With the support of CEDB and the dedicated efforts of the department, the HKP has launched a number of cost-saving measures, such as the amalgamation of the Sorting Offices of the International Mail Centre (IMC) and the General Post Office (GPO) to streamline the mail handling workflow; seeking to achieve a lower rate of increase for terminal dues payment by conducting bilateral negotiations; implementation of the Integrated Postal Services System to re-engineer counter service work processes and facilitate the planning and deployment of resources. In respect of generating revenue, the HKP has taken the following measures: introducing a range of new postal services in recent years in response to the development of e-commerce, for example, Smart Post local delivery service, e-Express and iMail international delivery service, and post office counter collection service; active enhancement of local and cross-border direct mail services; as well as promotion of HKP's total service solutions to local small and medium enterprises. On top of the above-mentioned measures, the HKP has also actively explored new initiatives to generate revenue and manage cost. These include enhancing cooperation with the Airport Authority Hong Kong to provide goods delivery services with wider coverage for travellers who shop at the Hong Kong International Airport. The HKP will further explore possible improvement measures in light of the Audit recommendations.

5. In assessing the performance of the HKP, we should bear in mind some special factors. The HKP's service provision is largely demand-driven. In our current open local postal and courier service market, competition is keen and speed is essential for mail delivery. Yet, the mail volume fluctuates and is hard to predict. The HKP has to meet the service needs of customers and fulfill the Government's universal postal service obligation to the public. It has achieved self financing by using business revenue to meet daily operational expenses without relying on government subsidy or drastic increase in fees. This is by no means an easy task. Indeed, the HKP has been trying its best to continuously enhance its performance in its daily operation and financial sustainability.

6. The Audit review mainly focuses on four key areas, namely management of mail processing; management of post offices; management of postal vehicles; and management of the Central Mail Centre (CMC) and the GPO Building. A number of valuable recommendations on matters relating to the above areas have been put forward for our reference. The CEDB and HKP attach great importance to the Audit recommendations, which the HKP is progressively implementing.

7. Regarding the management of mail processing, it is the sender's responsibility to pay sufficient postage for mail delivery. The HKP has already stepped up its publicity efforts to educate the public on the need to pay sufficient postage to avoid delay in delivery. Besides, the HKP will draw on the Audit recommendations to enhance the control mechanism for detecting postal items for which the risk of underpayment of postage is higher. Meanwhile, the HKP will formulate appropriate measures to recover underpayment, taking into account the feasibility at the operational level and the availability of resources. As for overtime work, since the volume and mix of mail handled by the HKP fluctuate, there is a practical need for overtime work to cope with the fluctuating workload, which cannot be fully taken up by the regular workforce. Moreover, overtime work is often a more cost-effective solution as it can avoid idle manpower created by an increase in permanent posts. The HKP has strengthened its departmental control mechanism to ensure compliance with the relevant requirements in the administration of overtime work.

8. In the management of post offices, we agree with the Audit recommendation that the HKP should continue to rationalise its post office network. To make progress in this regard, we should ensure that the affected communities show understanding for such rationalisation. The HKP will continue to identify opportunities for further rationalisation, manage the costs of operating its network of post offices, and make optimal use of post offices to explore new revenue streams.

9. As regards the management of vehicles, the HKP has proceeded to review the methodology for calculating the utilisation rates of departmental vehicles with a view to optimising vehicle utilisation. According to the data of the Government Logistics Department, a majority of the utilisation rates of departmental vehicles are reasonable. In procuring hired vehicle service, the HKP will introduce a greater element of market competition where appropriate to ensure cost-effectiveness in service procurement on the one hand, and cater to the actual operational needs of the department on the other.

10. With respect to the management of the CMC and the GPO Building, the HKP will put available space in the CMC to gainful use as planned to meet the department's operational needs, and will seek the Property Vetting Committee's approval for future changes to the allocation of accommodation reprovisioned from the IMC to the CMC. To facilitate the development project of the New

Central Harbourfront, the GPO Building will be reprovisioned. In this connection, the HKP has been working closely with relevant government bureaux and departments to actively take forward tasks relating to the reprovisioning under its purview. The HKP will also, as planned, put the space at the existing GPO Building to gainful use before its reprovisioning.

11. Mr Chairman and Members, we will seriously consider the recommendations in the Audit Report which are related to the value for money audit, listen carefully to Members' views, and work closely with the PAC to take active follow-up actions. My colleagues and I will be happy to answer in detail any questions that Members may raise later.

12. Thank you, Mr Chairman.



UPOE 香港郵政局員工會

Union of Hong Kong Post Office Employees
GPO Box 1188, Hong Kong SAR, China.

www.upoe.org.hk

email: upoe1188@gmail.com

朱漢儒先生

政府帳目委員會秘書

香港中區立法會道 1 號

立法會綜合大樓

朱先生：

謝謝石主席及朱秘書的回覆。

現將本會要求約見委員會三項要點具體詳述如下：-

(1) 香港郵政營運基金模式的檢討

在 5 個以營運基金模式的部門中，香港郵政有別於其他 4 個營運部門有具穩定的收入來源。例如政府機電工程署包攬所有政府的機電工程；公司註冊處是單一服務提供者，香港郵政需要與其他市場持分者(包括海外郵政機關)競爭，在現時營運模式框架下，受到極大制肘，營運基金已運行二十年，對於急要應對市場需要缺乏彈性，不能與時並進，例如採購車輛，需要根據政府物流署的採購程序，由申請到到貨，往往需時兩至三年；一輛小型郵車後泵把因交意外造成輕微損毀，經機電署維修要收 \$12,000，而交由一般車房只需 \$4,000-\$5,000，視乎車種而定；拆除一個 12 呎長地櫃需要 \$25,000，而交由外間裝修公司只需 \$3,000-\$4,000。

建議：給予香港郵政檢討營運基金在運作事宜上有靈活性及自主權力。。

(2) 香港郵政人手編制及逾時工作的安排

2.1 香港郵政人手編制

香港郵政多年來偏重節流工作而往往在人力資源著手。正規員工人手編制上須在所有科組作全面檢討。儘管署方在科技上有所提升，但適當的人手配合實為必要。希望署方須在效率及顧客服務取得平衡，並從開源方面有重大的業務發展，所開展業務，不要雷聲大，雨點少。

2.2 逾時工作的安排

由於投寄郵件量是不穩定及有季節性的，例如上市公司投寄年報、4 年一度區議會、立法會及選舉委員會選舉都不是固定的，因此只能聘用臨時員工及進行逾時工作安排。個別郵件處理中心，或因地理因素，未能在短時間內調配大量人手應付工作量，以致個別同事太多逾時工作，本會是認同有檢討必要。

建議：香港郵政應全面檢討正規員工在人手編制上填補空缺的必要，檢討招聘流程，縮短現時過長招聘員工程序，避免因正規員工短缺而增加逾時工作。人力資源政策及培訓及人員升遷的安排應重新檢討。不過，本會認同逾時工作在整體運作上去處理突發性及季節性的突發投寄郵件上是較有靈活性及彈性。

(3) 檢討欠資郵件及派遞標準

3.1 檢討欠資郵件

本會認同審計署對欠資郵件的處理評論，雖然處理欠資郵件的行政費用成本高昂，收取欠資額不足以彌補該筆費用，在用者自付的原則下，寄件人理應付足郵資，本會亦有向署方反映，檢討欠資郵件的處理方法，如退回寄件人或通知收件人直接往郵政局領取欠資郵件等。

3.2 派遞標準

派遞郵差的派信量是建基於一位理工大學教授於 2002 年前用科學計算方法因應不同派遞模式的信段研究出來，亦通過不停反覆測試後以 3T, 即準備時間(Preparation Time)、交通時間(Travelling Time) 及派遞時間(Delivery Time)。本會認同計算方法具科學化，雖則個別派遞信段偶有爭拗但亦可個別處理及解決，整體上及原則上大部分員工都是接受的。至於審計署提到派遞郵差逾時工作數目很多一事，本會認為全港共有 1,700 段派遞信段因應工作需要的逾時工作數目其實不多，去年整體逾時工作時數已減少 10%。

建議：香港郵政應一併檢討與時代脫節的郵政法例令運作上更方便市民及更具彈性。至於檢討逾時工作方面，本會認為若是個別員工得到特別多的逾時工作，也必須一併檢討，如研究提供偏遠地區工作交通或膳食津貼、改善處理不同種類郵件的派遞標準等。

(4) 其他建議:

4.1 香港郵政每日處理多種郵件及服務，本會認為部分因調整收費的低收費的郵件，修訂如廣告宣傳品及住戶通函的派遞標準或截郵時間，使此類郵件可於非繁忙時間處理；另外，一些虧本的物流生意應予取消，對於本地偏遠地區由速遞公司轉由香港郵政派發的郵件及本地包裹香港郵政可考慮收取與市場相若費用。

4.2 香港郵政每日處理多種郵件及服務，本會認為部分因調整收費的低收費的郵件，修訂如廣告宣傳品及住戶通函的派遞標準或截郵時間，使此類郵件可於非繁忙時間處理；另外，一些虧本的物流生意應予取消，對於本地偏遠地區由速遞公司轉由香港郵政派發的郵件及本地包裹香港郵政可考慮收取與市場相若費用。

以上是本會的補充資料，若石主席及朱秘書有任何進一步疑問歡迎與本人()/本會秘書長何偉昌先生()或經電郵聯絡本會。

謝謝關注！

香港郵政局員工會主席葉錦富



2015年12月11日

***Note by Clerk, PAC: Chinese version only.**



香港郵務職工會

HONG KONG POSTAL WORKERS UNION

九龍油麻地廟街 47-57 號正康大樓 2 字樓 電話：2770 3676 圖文傳真：2770 3617
2/F, CHENG HONG BUILDING, 47-57 TEMPLE STREET, YAUMATEI, KOWLOON.



致 立法會政府帳目委員會主席及委員：

本會（香港郵務職工會）就審計署早前提交之審計報告（第 65 號報告書）對香港郵政營運有多項批評，本會有以下意見：

1) 欠資郵費

處理欠資郵件是我們日常工作的一部份，部門亦從來沒有忽略有關問題。由於近年網上郵購活動大行其道，而這類郵件的欠資情況最為嚴重，且有惡化趨勢，故部門將注意力，集中在這類郵件上，避免情況進一步惡化。本會必須強調，同事們已確實嚴肅處理有關問題，從沒有半點鬆懈，雖然事情尚未百份百解決，但到目前為止，情況已得到大幅改善。

2) 未貼上郵票的信件仍可投寄

相信這些郵件大多是從郵筒收回來的，他們在投寄前，應該沒有經過我們門市櫃位同事處理。這類沒有郵票的郵件，估計主要有兩個原因：第一，投寄人漏貼郵票。在此情況下，我們一般會要求收件人支付欠資，如有一定數量及有回郵地址，我們會聯絡寄件人處理欠資事宜。第二，郵件上的郵票很可能是在郵件被投進郵筒時或於處理過程中意外脫落。在郵筒內或我們的工作間裏，不難發現脫落的郵票。至於要確定其真正原因，我們只能依賴同事們的經驗。

3) 超時工作的運作及監管

自從香港郵政以營運基金形式運作後，部門堅持「資源增值、量入為出、開源節流」的策略方針；在員工管理方面，亦制定出雙方認同的工作指標，以確保工作效率維持在高水平。但隨着香港人口不斷增加、樓宇重建、新的房屋落成和土地開發的種種因素，同事們的工作量壓力與日俱增。在日常運作中，若郵件量正常，同事們定必能夠準時、準確完成工作。但當工作量超出訂立的指標時，有關超出的部份，便需要以「超時加班模式」去完成。這個安排，既靈活省時，又可達到服務承諾的標準及滿足現今市民的需求。此外，香港郵政規定每日所收到的正價郵費郵件，必須於下一個工作日完成派送。當遇上郵件高峰期或團體推廣活動時，在緊絀的人手編制下，一定沒有足夠的後備人手去分擔額外的工作。在這時候，以「超時加班模式」去完成工作，是最合適的安排。



香港郵務職工會

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九龍油麻地廟街 47-57 號正康大樓 2 字樓
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4) 人手安排

在部門以營運基金運作後，本會觀察所得，各職級的基本職員人數嚴重不足。以管理層為例，經理級人員(郵務監督職系) 近年人手絕對缺少，要不是這樣，何以經常出現以一位職員，去執行兩至三個崗位的工作。而大量新同事也因工作量太過繁重的關係，入職後亦會於很短時間內離職。同樣情況亦發生在郵務員及郵差職系。在聘請合約員工方面，可能由於香港郵政是香港政府其中一個部門，運作必須要遵循政府規條，所以薪酬待遇和員工福利與實際市場有點距離，結果導致招募困難，造成大量合約制職位懸空。

未知是否因為以營運基金運作的關係，部門為了節省成本開支，要壓縮人手編制，人手不但沒有增長，還要遞減。在政府部門內，凡涉及大型項目，必會設立一個專責小組負責跟進。如空郵中心的建造和國際郵件中心的遷拆，部門也會開設專責小組跟進及監管臨時的管理職位。據近日的傳聞，部門並沒有打算為稍後郵政總局的搬遷，開設專責小組，只責成有關科別主管兼任。而在管理層(監督職系) 人手嚴重流失和短缺的情況下，還令員工百上加斤。試問部門是否只顧資金成本比例的回報指標，而忽略其他更重要的問題。

5) 工會重申要求檢討營運基金

香港郵政自 1995 年開始以「營運基金模式」來運作，部門在「開源節流」的大前提下，真的下了不少功夫。在激烈的競爭下，開源可謂滿途荊棘；反之，節流就相當容易。多年以來，不斷有商廈及屋苑落成入伙，市民對服務的要求更日益增加，但部門卻從來沒有相應提高所需的人手，令前線員工壓力倍增。

雖然郵政署名義上是以營運基金運作，但實則是政府部門之一。不但完全沒有自主權，反之運作限制繁多。例如，部門需要租用一個運作間，縱使找到合適的地點，也要得產業署的首肯及跟進，方能成事。事情往往需時處理，結果總是錯失良機。基於類似原因，郵政署未能自行決定關閉使用量低的郵政分局，而且現時所租用運作間的租金年年增加，大大加重財政負擔。另一方面，為方便運作及增強競爭力，部門需要添加車輛時，必須經過物流署的安排。由於物流署會待購車申請達致一定數目方會安排一次性投標購買。換句話說，整個採購步驟長達兩三年。部門以往曾構思開創及發展新業務，礙於郵政署隸屬政府部門，被眾多規例所限，而且要徵詢律政司的法律意見，有意合作的商業機構因為不願意長時間等待回覆，而另覓合作伙伴。



香港郵務職工會 HONG KONG POSTAL WORKERS UNION

九龍油麻地廟街 47-57 號正康大樓 2 字樓 電話：2770 3676 圖文傳真：2770 3617
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本會還有一個疑問，香港郵政是被定性為一個政府部門，還是一個以營運資金比例回報的機構？我們現今仍有很多工作屬於服務性質，基本上沒有合理的利潤。我們不能停止這些工作，但做了又經常被批評管理不善。我們期望各位議員明白，即使是位置偏遠，交通不便的地區，如落馬洲、沙頭角和離島等，部門亦會提供正常派遞服務，並不會另行收取任何附加費。相反，其他同業只挑選利潤較高的商業區提供服務，而派遞上述偏遠地區則要向消費者收取附加費或轉交香港郵政派遞。

最後，我們希望向各議員再次重申一點，每天的郵件投寄量是無法準確預知和控制，但作為全港最大的一個郵遞服務機構，我們必須要按照既定的服務承諾，向市民提供最優質的服務。當郵件量超出了我們正常人手的負荷時，超時工作不但是無可避免的安排，亦是最節省人力資源的方法。在現行的同業中，當面對相同問題時亦無他選，都只能依賴超時津貼，去完成額外的的工作。本會相信審計署未能完全切身處地去理解香港郵政現在超時工作運作模式，作為對員工超時補償的好處。若貿然修改沿用多年、行之有效的雙贏方法，隨時會得不償失，弄巧反拙。

本會以上的看法全獲得以下六個工會的認同和支持(排名不分先後)：

香港政府華員會郵務員工分會主席 — 賴偉倫

香港郵務主任協會主席 — 胡耀邦

香港高級郵務員協會主席 — 胡信成

郵政署郵務員職工會主席 — 霍浩森

香港郵政署高級郵差職工會副主席 — 譚超平

香港郵政合約僱員工會主席 — 杜房喜

香港郵務職工會
理事長 張偉權

2015 年 12 月 16 日



本會網址 <http://www.hkpwu.org.hk>
Facebook <http://www.facebook/hkpwu.org.hk>

工會熱線電話
☎9107 7110

***Note by Clerk, PAC:** Chinese version only.

香港特別行政區政府
商務及經濟發展局
工商及旅遊科

香港添馬添美道二號
政府總部西翼二十三樓



COMMERCE, INDUSTRY AND TOURISM BRANCH
COMMERCE AND ECONOMIC
DEVELOPMENT BUREAU
GOVERNMENT OF THE HONG KONG
SPECIAL ADMINISTRATIVE REGION

23/F, WEST WING
CENTRAL GOVERNMENT OFFICES
2 TIM MEI AVENUE
TAMAR, HONG KONG

Our Ref: CITB CR 140/02/1
Your Ref: CB4/PAC/R65

Tel No.: 2810 2958
Fax No.: 2869 4420

17 December 2015

Mr. Anthony CHU
Clerk, Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex,
1 Legislative Council Road,
Central, Hong Kong

Dear Mr. CHU,

Public Accounts Committee
Consideration of Chapter 5 of the Director of Audit's Report No. 65
Operation of the Hongkong Post (HKP)

Further to our letter of 9 December 2015, the remaining information as requested in your letter of 1 December 2015 is attached below –

Item (c)

Copies of Annual Business Plan and Medium Range Corporate Plan submitted by HKP in the past five financial years (from 2010-11 to 2014-15) (all in English only) are at Annex A. Commercially sensitive information, budgetary projections based on volatile budgetary assumptions and certain internal restricted sensitive information are blacked out.

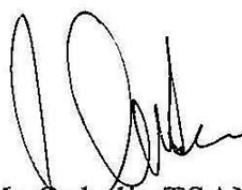
***Note by Clerk, PAC:** *Please see Appendices 43 and 44 of this Report for extracts of Annual Business Plan (2014-15) and the Medium Range Corporate Plan (2014-15 to 2018-19) for HKP.*

Items (d) and (e)

It is the Government's policy that the HKP continues to operate as a trading fund. Any institutional and other constraints faced by the Post Office Trading Fund (POTF) have always been recognized, and the HKP has been making its best endeavor to make the best use of the flexibilities permitted under a trading fund mode of operation. In the light of this, the institutional and other constraints faced by the HKP serve as the backdrop to the annual business plans and medium range corporate plans as set out in the SWOT (viz. strengths, weaknesses, opportunities and threats) analysis and the sections on longer term operational sustainability and financial viability of the plans. They are the factors that need to be taken into account when assessing the performance of the HKP. Members will appreciate that the preparation of the plans is a continuous rolling process, and the focus of the discussions between CEDB and HKP is the measures needed to enable HKP to deliver the best financial and operational performance when operating within the parameters of the POTF.

To facilitate Members' reference, a note setting out the major differences amongst the different modes of operation is at Annex B.

Yours sincerely,



(Ms Ophelia TSANG)

for Secretary for
Commerce and Economic Development

c.c. Postmaster General
 Secretary for Financial Services and the Treasury
 Director of Audit

***Note by Clerk, PAC:** *Please see Appendix 42 of this Report for Annex B.*

Annex B**Operation as a Trading Fund by HKP**

During the Public Accounts Committee Hearing on Chapter 5 of the Director of Audit's No. 65 held on 30 November, Members raised whether trading fund was the appropriate operation mode for HKP. We have stated the Government's position that we do not have any intention to change the current mode of operation.

2. To facilitate Members' understanding, it may be useful to set out the major differences amongst different possible models of operations.

Background

3. The Trading Fund Ordinance (Cap 430), enacted in 1993, provides that a trading fund may be established to manage and account for the operation of a government service for which the Government has the financial objective that the service shall fund itself from the income generated from the government service whether it is a service provided to the Government, to public bodies or to persons other than the Government.

4. It provides that in considering whether to establish a trading fund for a government service, the Government is to have regard to the capability of the provider of the government service –

- (a) to provide an efficient and effective operation that meets an appropriate standard of service; and
- (b) to have the capacity, within a reasonable time, to meet expenses incurred in the provision of the government service and finance liabilities to be specified in the resolution out of the income of the proposed trading fund.

5. A number of trading funds were established in the 1990s, including the Post Office Trading Fund (POTF), Land Registry Trading Fund, Companies Registry Trading Fund, the Electrical and Mechanical Services Trading Fund, the Office of the Communications Authority Trading Fund, etc.

6. The POTF was established by a Resolution of the Legislative Council passed on 19 July 1995 under Cap 430 to manage and account for the operation of the HKP with effect from 1 August 1995. The aims of the HKP are to meet Hong Kong's postal needs and fulfill Hong Kong's international postal obligations by providing reliable, efficient and universal postal services at reasonable and affordable prices.

Vote-funded department vs trading fund

7. The key difference in operation between a vote-funded department and a trading fund lies in the resources management. Revenue generated from a vote-funded department goes into the Government's general revenue, while it can only incur expenditure up to the amounts stated in the expenditure estimates and for the purposes approved by the Legislative Council. Where the department needs to incur expenditure say on an enhanced/new initiative, it has to obtain the necessary funds through the Government's resource bidding and allocation processes.

8. A trading fund department retains the revenue generated from its business to cover the cost of service provision on a self-financing basis. The enhanced flexibility in resource management enables the department to respond to changes in markets, improve productivity and efficiency, raise service standards, and introduce new services to meet changing customer needs in a more timely manner. At the same time, it is expected to achieve a reasonable rate of return as determined by the Financial Secretary. It needs to pay notional profits tax, and declare dividend.

9. Notwithstanding the above flexibilities, as a government department, HKP is still subject to service-wide government rules and regulations, e.g. civil service pay and conditions of service, rules on procurement of goods and services, and rules on adjusting fees for miscellaneous postal services under the Post Office Regulations (Cap 98A) etc. Furthermore, the Government has committed that future increases in postage rates would be broadly in line with inflation.

Corporatization/privatization

10. Under this mode, the HKP would become a company, with profit maximization as a, if not the, key objective. In order that the corporatization/privatization be meaningful, the new entity needs to have commercial freedom, including not only the services it renders but the terms and conditions of service of employment etc. It is clear that staffing implications would be the most significant implication of any corporatization/privatization of HKP. At present, there are over 5 000 civil servants and staff costs accounts for 45% of HKP's overall costs. The issue of compulsorily retiring civil servants/changing permanent civil servant status is very sensitive. The Government does not have any intention to corporatize/privatize HKP.

Our View

11. As can be seen from the above, no single model is a perfect one. This notwithstanding, as a trading fund, HKP enjoys flexibilities that a vote-funded department does not have. Of course, HKP has to make continuous efforts to deliver its mission of providing affordable and efficient postal services of a good quality and to improve the longer-term financial sustainability of the POTF through costs management and business development to meet evolving market needs. As a result of these sustained efforts, the operating loss of the POTF was significantly reduced to \$2.6 million in 2013-14 and the POTF achieved an operating profit of \$169 million in 2014-15.

12. Furthermore, pursuant to the 2015 Budget Speech, HKP is currently reviewing its business operation with the objectives of enabling the department to further support the development of the logistics industry in Hong Kong and expand its service offerings in response to market needs. HKP will continue to endeavor to deliver its above-mentioned mission, building on its capabilities and enhancing its service provision to the benefit of customers (in particular, local small and medium enterprises) and the community at large.

13. On a last note, some quarters have suggested that the need for postage increase arises because HKP is a trading fund. This is of course a misconception. Giving the Government's principle of cost recovery of service provision, the pressure for postage increase is likely to be greater if HKP were to be reverted as a vote-funded department, given the lack of flexibility for HKP to subsidize the "loss" of certain services by "gains" from other profitable businesses.

Commerce and Economic Development Bureau
December 2015

III. BUSINESS ENVIRONMENT IN THE MEDIUM TERM

1. As part of our strategic business planning, we have reviewed the business environment by conducting a Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis as set out below.

(A) STRENGTHS

(a) Extensive retail, collection and delivery network and comprehensive product range

2. To provide postal service within easy reach of the local population, we have an extensive postal infrastructure with a retail network of 126 branch offices and two mobile post offices, around 1 100 street post boxes throughout the territory, three mail processing centres, three Speedpost operations centres, 28 delivery offices and two printing centres. With a fleet of around 280 vehicles, about 1 700 postman beats and around 400 courier staff, our delivery covers every local business and residential address. Capitalising on this well-established postal infrastructure, HKP offers a comprehensive range of postal and related services that meet customer needs at the Government-to-Citizen (G2C), Business-to-Customer (B2C) and Business-to Business (B2B) levels.

(b) Global network, convenient and reliable airport facilities and flight connections

3. The Hong Kong International Airport provides air transport links to over 180 destinations. In terms of physical connectivity, HKP is globally networked. As a member of the UPU under the sovereignty of the People's Republic of China, Hong Kong enjoys freedom of transit for mail items. The efficiency of our air connection, the integrity of our customs regime and HKP's low postage rates all add to Hong Kong's attractiveness to consolidators as a regional hub for transit mail.

(c) Well-established and reputable brand

4. HKP enjoys a long history of serving the community and prides itself on the excellence of its customer service. Through our continuous effort, we have earned the trust of our customers. The 2012 customer satisfaction survey indicated that 96.9% of our customers were satisfied

with our counter service, while 98.5% and 96.2% held the same view for our delivery service and hotline service respectively. The overall customer satisfaction level was at a high level of 98.5%. HKP is consistently recognised as an outstanding partner of local small and medium sized enterprises (SMEs) in various awards. In the Civil Service Outstanding Service Award Scheme 2013, HKP won the “Best Public Image Award – Bronze Award”, which speaks for the high performance standard of our entire workforce.

(d) One-stop service provision

5. With a wide range of postal services and products on offer, we make the best use of our postal infrastructure and human capital to provide one-stop solutions for our customers. These solutions embrace local and international postal solutions that cater for every budget, counter collection service, direct marketing, online shopping platform as well as end-to-end distribution to support both the public sector and the business sector in e-commerce.

(e) Unique stamps and philately-related products

6. HKP has a long and successful track record of stamp issues with popular themes, attractive designs and innovative printing techniques. We also market and package our philatelic products as corporate souvenirs and gifts. Our services cover gift/ souvenir design and production as well as creating attractive stamp collections to make personalised gifts.

(f) Dedicated and disciplined workforce

7. Over the years, in pursuit of business excellence, we have nurtured a highly dedicated and disciplined workforce which can be flexibly deployed to cope with sudden upsurges in business demands while providing high quality service. To meet the increasingly sophisticated demand of the marketplace, we place emphasis on improving customer experience and delivering our service pledges through a team of professional postal staff.

(B) WEAKNESSES

(a) Institutional set-up

8. HKP remains a government department despite its trading fund status. Under this institutional set-up, HKP is required to (i) meet the target rate of return on its average net fixed assets (ANFA); (ii) perform its universal service obligations under the Post Office Ordinance (Cap.98); (iii) be subject to the confines of its charter stipulated in the Trading Fund Framework Agreement; (iv) abide by the Government's rules and policies on procurement, financial resource management and human resource management; and (v) obtain the Chief Executive in Council's approval for revising the principal postage rates and the fees for miscellaneous postal services under the Post Office Regulations (Cap.98A). These requirements limit HKP's ability to respond swiftly and effectively to a market-driven business environment.

(i) HKP not being a legal entity



(ii) Inflexibility in resource management

Human resource

10. Over 70% of HKP's staff are civil servants. Bound by the Civil Service Regulations and related guidelines on the management of the

civil service, HKP is not allowed to flexibly modify the employment terms and conditions³, the recruitment process and other aspects of the management of its civil service staff in accordance with market conditions or HKP's business needs and financial position. Although HKP may employ non-civil service contract (NCSC) staff to meet fluctuating service demand, it is required to abide by the terms of the NCSC Scheme and Government's prevailing policy in this regard. Moreover, it is subject to constant pressure from outside HKP to convert existing NCSC posts to civil service posts. Any changes to the service-wide policy and measures on manpower management, including those with significant financial implications⁴, will automatically apply to HKP. HKP is also required to pre-fund the pension payments to be paid to its civil service staff, [REDACTED]

Other resources

11. Many of the post offices vested by the Government in HKP were established prior to the setting up of the POTF for the purpose of providing community service to the public without regard to commercial viability. The operating expenditure they incurred used to be funded by the Centre. HKP inherits this retail infrastructure. However, any proposed closure of those post offices that are not financially viable⁵ requires local consultation that is fraught with difficulty. [REDACTED]

³ HKP is required to strictly follow the service-wide policy on civil service pay and conditions of service, including the annual civil service pay adjustment, the application of the results of the periodic Pay Trend Survey, the payment of allowances, etc., and meet the financial implications thus arising with its own means. Take the annual civil service pay adjustment as an example, HKP has no control over the magnitude of adjustment. Moreover, if the approved rate of pay adjustment exceeds the projected increase advised by the Treasury during the preparation of HKP's annual business plan, HKP is still required to pay for the difference and meet the target rate of return without any assistance from the Centre.

[REDACTED]

(iii) Inflexibility in the procurement of goods and services and choice of business partners

[REDACTED]

[REDACTED]

(iv) Difficulties in pricing and operating on a fully commercial basis

14. Given our obligation to provide universal postal services to the public at affordable prices and as adjustments to the principal postage rates and postal fees prescribed in the Post Office Regulations (Cap. 98A) are subject to political considerations, HKP is unable to recover the full cost of service provision promptly on a commercial basis. Nor do we receive any government subsidy for providing the loss-making universal postal services.

(b) High service costs

[REDACTED]

[REDACTED]

[Redacted]

(i) Staff Cost

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(ii) Terminal Dues

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(iii) Air Conveyance Costs

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[REDACTED]

(iv) Costs of Hired Vehicles

[REDACTED]

(v) Accommodation Costs

[REDACTED]

(c) Erosion of HKP's monopoly

[REDACTED]

[REDACTED]

[REDACTED]

(d) HKP has to compete for the patronage of Government bureaux and departments

[REDACTED]

(C) OPPORTUNITIES

(a) [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

¹⁰ Kahala Post Group (KPG) is an international postal alliance established in 2002 to improve international postal services, particularly Express Mail Service (EMS) and Air Parcels service in the Asia-Pacific rim. Australia, Mainland China, Hong Kong, Japan, Korea and the USA are the founding members. In July 2009, the membership expanded to include Spain, the United Kingdom, France and Singapore. The KPG members account for approximately 70% of the global traffic in EMS.

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(D) THREATS

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[REDACTED]

(D) Measures to Secure the Longer-term Operational Sustainability and Financial Viability of HKP

Longer-term Operational Sustainability

43. Despite our current stringent financial condition, we will continue to invest in our postal infrastructure and promote green measures to secure our longer-term operational sustainability.

(a) Expansion of AMC



(b) Reprovisioning of the GPO



(c) Green management

46. To protect the environment and to support sustainable development, we have implemented a range of measures across our services, operations

and infrastructure to reduce consumption of resources, minimise waste, as well as reuse and recycle materials. Our departmental Environmental Enhancement Steering Committee oversees the efficient use of resources and waste management, implements energy-saving measures, raises environmental awareness among staff and promotes staff participation in various green initiatives. In view of increasing public concern about environmental conservation and the trend of green operation, we will take appropriate measures to reduce the carbon footprint of HKP's operations.

Longer-term Financial Viability

47. The circumstances faced by the Post Office have changed substantially since the establishment of the POTF in 1995.

48. Under the Post Office Ordinance (Cap. 98), HKP enjoys a monopoly over letter post¹¹. Over the years, however, this monopoly has been completely eroded with the emergence of a large number of private sector couriers operating in an unregulated environment. These couriers pose serious competition to HKP by creaming off the more profitable business provided by HKP. Non-profitable business, typically universal obligation postal services such as territory-wide mail delivery at a uniform postage rate and territory-wide provision of retail postal services, is left to HKP, which operates without any subsidy from Government.

49. In discharge of its universal service obligations, HKP is required to maintain an extensive mail processing and delivery infrastructure as well as an extensive post office network. With the significant changes to the postal behaviour of the public as well as businesses in recent years brought about by the prevalence of electronic communication, social mail volume has dropped dramatically while transaction mail volume is also on a downward trend. Although the majority of HKP's post offices are loss-making, the political reality makes it difficult to close them. On the other hand, with urban development and the emergence of new developments in rural areas, HKP has to create new delivery beats to provide service coverage. HKP's means become increasingly drained as a result of these factors combined, and resources available at HKP's disposal for further business expansion and service quality improvement become increasingly limited.

¹¹ Section 6(1) of the Post Office Ordinance (Cap. 98) provides that "The Postmaster General, by himself or by the officers of the Post Office, shall have the exclusive privilege of -
(a) conveying letters from one place to another within Hong Kong;
(b) sending letters out of Hong Kong for delivery outside Hong Kong;
(c) receiving letters brought into Hong Kong for delivery in Hong Kong; and
(d) receiving letters brought into Hong Kong for transmission to some place outside Hong Kong, other than letters contained in mail bags passing through the waters of Hong Kong without transhipment,".

50. The postal industry is by nature labour-intensive. Despite HKP's continuous effort to enhance operational efficiency and productivity, staff cost accounted for [REDACTED] of its operating costs in 2012-13. Remaining as a Government department, some 70% of its staff are civil servants and the terms of their employment are subject to Government's civil service policy. The remaining 30% are NCSC staff to help HKP cope with fluctuations in mail traffic, meet service demand that does not require the staff concerned to work the conditioned hours of civil servants and tap expertise in the private sector that is not readily available in the civil service. While the cost of engaging NCSC staff is lower than that of civil service employment, HKP is under constant pressure to convert the NCSC posts in the department to civil service posts. [REDACTED]

[REDACTED] In this connection, it is noteworthy that HKP is required to pre-fund the pension payments of its serving employees, [REDACTED]

[REDACTED]

52. Against the circumstances outlined in paragraphs 47 - 51 above, we propose to further explore with Financial Services and the Treasury Bureau (FSTB) a number of suggestions as set out in paragraphs 53 - 57 below with the objective of improving the POTF's longer-term financial viability.

(a) Rent payment to Government

[REDACTED]

[REDACTED]

[REDACTED]

(b) Investment of the POTF's reserve

[REDACTED]

(c) HKP as the service provider of choice for Government bureaux/departments

[REDACTED]

[REDACTED]

[REDACTED]

(d) Funding of pension payments for civil service staff in HKP

[REDACTED]

[REDACTED]

[REDACTED]



Linking people Delivering business 傳心意 遞商機

17 December 2015

Mr Anthony Chu
Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 5 of the Director of Audit's Report No. 65
Operation of the Hongkong Post (HKP)

Further to our letter dated 9 December 2015, we set out in the ensuing paragraphs the requested information under item (a) to (c) and items (i) and (j) in your letter of 1 December 2015.

On items (a) to (c)

2. Among the five existing trading funds, the POTF is unique in that HKP provides postal and related services in competition with numerous service providers in an open market with a low entry threshold. HKP carries the universal service obligation, which requires the Department to provide reasonable access to affordable postal service for the community at large (including service provision at remote locations and provision of local mail service at uniform postage rates throughout the territory), while other local courier service providers are free to choose the scope and geographical coverage of their service provision. In comparison, the other four trading funds provide niche services or services for niche markets, e.g. incorporation of companies and ancillary services and company search for the Companies Registry Trading Fund, land search and registration of deeds services for the Land Registry Trading Fund, regulation of telecommunication and broadcasting services for the Office of the Communications Authority Trading Fund, and electrical and mechanical engineering services for the Electrical and Mechanical Services Trading Fund whose clientele comprises mainly government bureaux/departments and quasi-government bodies.

Hongkong Post Headquarters
2 Connaught Place, Central
Hong Kong

T +
F +
www.hongkongpost.com

香港中環康樂廣場二號
香港郵政總部

3. A copy of the exchange of correspondence among the Financial Services and the Treasury Bureau (FSTB), the Commerce and Economic Development Bureau (CEDB) and Hongkong Post (HKP) during the review on the target rates of return for trading funds conducted in 2010 and 2011 in respect of the proposed target rate of return for the Post Office Trading Fund (POTF) is at **Annex A**.

4. While it is Government's policy to adopt a trading fund mode of operation for HKP, the institutional and other constraints faced by the POFT are registered and recognised as reflected in the Strengths, Weaknesses, Opportunities and Threats analysis as well as the sections on HKP's longer-term operational sustainability and financial viability in the POTF's annual business plans and medium range corporate plans (please see Annex A to ~~the Secretary for Commerce and Economic Development's reply dated 17 December 2015 to Clerk, Public Accounts Committee~~ for copies of the POTF's annual business plans and medium range corporate plans from 2010-11 to 2014-15). The constraints articulated in these plans set the backdrop for the regular discussions between HKP and the CEDB and FSTB on the financial and operational performance of the POTF. The Working Group on Long-Term Fiscal Planning, which was established under FSTB pursuant to the Financial Secretary's 2013-14 Budget Speech reviewed, among others, the management of trading funds, including the POTF. An extract from the Phase Two Report of the Working Group is at **Annex B**.

Appendix 41

5. Having regard to Government's afore-mentioned policy, HKP has over the years made its best endeavour to enhance its operational and financial performance by implementing various measures to manage its costs, generate revenue through business development and maintain its longer-term financial and operational sustainability. In this endeavour, HKP has, as far as practicable, sought to make the best use of the flexibilities permitted under the prevailing institutional and legal framework governing the POTF. In the process, HKP engages the assistance and support of CEDB on policy matters, FSTB on financial resource management matters and the Civil Service Bureau on human resource management matters.

On item (i)(i)-(iii)

6. The number of civil servants, the number of vacancies and the vacancy rates in the Mail Distribution Division (MDD) and the Air Mail Centre (AMC) in 2010-11 to 2015-16 are at **Annex C**. The wastage rates of civil servants in HKP are calculated by civil service grade rather than by functional units in the Department. The wastage rates of the frontline departmental grades in HKP, i.e.

***Note by Clerk, PAC:** *Annex B not attached and please see Appendix 60 of this Report for Annex C.*

the Postal Officer grade and the Postman grade, in 2010-11 to 2014-15 are at **Annex D**. The number of non-civil service contract (NCSC) staff, the number of vacancies, the vacancy rates and the wastage rates in the MDD and the AMC in 2010-11 to 2015-16 are at **Annex E**.

On item (i)(iv)

7. Information on the recruitment exercises conducted in 2010-11 to 2015-16 for civil service vacancies in the Postal Officer grade and the Postman grade in HKP and NCSC vacancies in MDD and the AMC, as well as the number of vacancies filled in each exercise, is set out at **Annex F**.

On item (i)(v) and (vi)

8. Civil service recruitment in HKP is required to comply with service-wide procedures promulgated by the Civil Service Bureau. This means, among others, that to uphold fairness, HKP is required to process all applications received even if the number of applications far exceeds the number of vacancies to be filled. This prolongs the recruitment process. Moreover, once HKP embarks on a fresh round of recruitment, the waiting list from the last round of recruitment exercise will cease to be valid. As a consequence, HKP has to carry the vacancies arising during the recruitment process until the new intake reports for duty. To address these problems, we have sought to compress the recruitment process, e.g. replacing the written test by an aptitude test for the recruitment exercise for the Postal Officer grade launched in October 2015, enhancing the planning and scheduling for civil service recruitment in the Department so as to minimise the number of vacancies to be carried by the Department pending the completion of a recruitment exercise. The wastage of the Postal Officer grade and the Postman grade is relatively stable, and we do not face any retention difficulty for these two grades.

9. For NSCS positions in respect of which we encounter difficulty in recruitment and staff retention, we have implemented a number of measures in response :

- (a) We explain clearly in the vacancy advertisements the job requirements, the work location and the working hours to attract the right candidates and reduce wastage;
- (b) We conduct regular pay level reviews for NCSC staff in HKP with reference to market pay levels to ensure that we continue to offer a

***Note by Clerk, PAC:** *Please see Appendices 62 and 61 of this Report for Annexes D and E respectively, and Annex F not attached.*

competitive remuneration package. In this regard, commencing from 1 November 2015, additional pay is granted to NCSC positions performing overnight duties, including those at the AMC, in order to attract more applicants for the overnight shift;

- (c) For more targeted recruitment effort for NCSC positions at the AMC, we distribute household circulars in Tung Chung with the objective of attracting more local applicants, in addition to placing recruitment advertisements in newspapers. Moreover, we engaged the assistance of Labour Department to arrange recruitment exercises in Tung Chung in 2015;
- (d) We provide on-the-job training to equip our staff with the necessary skills and knowledge for enhanced performance; and
- (e) HKP offers an attractive career path for NCSC staff. We encourage serving NCSC staff to apply for civil service vacancies in the Department and relevant working experience, including working experience in HKP, is given recognition in the recruitment process.

10. We have examined the suggestion of providing transportation service to the workplace for staff working at the AMC. AMC is easily accessible by public transport (please see information at **Annex G**). The duty hours of the staff working at the AMC are scheduled to cope with the round-the-clock operation of the AMC and they spread throughout the day. Moreover, the arrival and departure patterns of the AMC staff are uneven in reflection of the manpower demands at different hours during the day. In view of the foregoing, we consider that the provision of departmental transportation service to the workplace for staff working at AMC is not a cost-effective arrangement and do not intend to pursue the suggestion.

On item (j)

11. Delivery beats are formed following a beat revision exercise to assess the daily workload of a delivery beat postman, taking account of relevant factors such as the volume, size and weight of the mail items for delivery; the delivery mode (e.g. nested letter boxes, door-to-door delivery, delivery requiring signature on receipt, etc.); the standard time for the processing and delivery of different mail types; the pledged delivery standard; errand time between delivery points and the local geographical characteristics of individual beats. As the conditioned hours of work of the Postman grade is 48 hours (or 8 hours a day,

***Note by Clerk, PAC:** *Annex G not attached.*

including a one-hour meal break), the daily standard workload of a delivery beat is normally set close to, or equal to, 420 minutes a day.

12. While HKP has set standard time for the processing and delivery of different mail types, there are inevitably variations among delivery beats due to diverse local conditions. Moreover, the actual volume and mix of mail for delivery on a day-to-day basis for a delivery beat may not exactly match the standard workload set for the beat concerned. Thus, to achieve cost-effective resource deployment, supervisors in delivery offices are required to exercise judgment and draw on their local knowledge in assessing the daily workload of individual delivery beats and, where justified, allocate additional resources (e.g. by means of overtime work for the beat concerned or assigning other staff in the delivery office to share out the extra workload) so as to ensure the timely completion of the delivery workload on hand. A copy of the guidelines on delivery workload assessment promulgated to supervisors and managers in the Mail Distribution Division is at **Annex H(1)** (in English only). Specifically, Postal Inspectors are required to record on a daily basis the reasons for deviations from the standard time in assessing the workload for each delivery beat. Superintendents of Post/Senior Postal Inspectors as well as managers are required to examine these records and follow up on deviations of 5% or more.

13. The example at **Annex H(2)** (in English only) illustrates how the instructions in the guidelines are applied in practice. On 6 October 2015, the delivery beat (WC 02) handled an exceptionally large quantity of mail. However, noting that some of the mail items were destined for the same delivery point, the Postal Inspector made an adjustment to the computed workload by deducting 90 minutes. Such adjustment and the associated reason(s) are recorded in the “Remarks” column.

14. To supplement the daily workload assessment for delivery postmen, Postal Inspectors are required to monitor the time of return of delivery postmen to the delivery office upon completion of their delivery duties, and conduct beat patrol at selected delivery points as well as the last stop of the delivery routes to review whether the resource allocation is in line with the workload. If notable deviations are observed, they will be reported to their Superintendents of Posts/Senior Postal Inspectors for necessary follow-up, e.g. by way of minor patching to the delivery beats concerned. Since November 2015, the beat survey team under Productivity Services Section has increased their monthly checks and

***Note by Clerk, PAC:** *Please see Appendix 58 of this Report for Annex H(1), and Annex H(2) not attached.*

enhanced their communication with delivery offices on notable disparity between the time allocated to a delivery postman and the actual time required. Reports on the monthly check are required to be submitted to Postal Services Branch Headquarters in a timely manner.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'L. Chow', written diagonally across the line.

(Lorrience Chow)
for Postmaster General

c.c. Secretary for the Commerce and Economic Development
Secretary for Financial Services and the Treasury
Director of Audit

Annex A

Exchange of Correspondence among the Commerce and Economic Development Bureau (CEDB), the Financial Services and the Treasury Bureau (FSTB) and the Hongkong Post (HKP) during the Review on the Target Rates of Return for Trading Funds conducted in 2010-11

Exchange of Correspondence	Annex
CEDB's email of 9.7.2010 to FSTB	Annex A(1)
FSTB's memo dated 14.11.2011	Annex A(2)
HKP's email dated 19.12.2011 to FSTB	Annex A(3)
HKP's memo dated 20.12.2011 to FSTB	Annex A(4)
FSTB's email dated 22.12.2011 to HKP	Annex A(5)

***Note by Clerk, PAC:** *Please see Appendices 55 and 54 of this Report for Annexes A(1) and A(4) respectively, and Annexes A(2), A(3) and A(5) not attached.*



Linking people Delivering business 傳心意 遞商機

22 January 2016

Mr Anthony Chu
Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

**Public Accounts Committee
Consideration of Chapter 5 of the Director of Audit's Report No. 65
Operation of the Hongkong Post**

Further to our letter dated 8 January 2016, we set out in the ensuing paragraphs the requested information under items (a) to (c).

Hongkong Post operating as a trading fund

On items (a) to (c)

2. The Post Office Trading Fund is unique among government departments and trading funds.
3. Operating as a trading fund, HKP is required to run its business on commercial principles. However, as a government department, HKP is subject to various institutional requirements related to manpower management (including the requirement to manage its civil servants in accordance with the Civil Service Regulations and all other rules and guidelines promulgated by the Civil Service Bureau (CSB) on the management of the civil service, and to strictly follow the civil service remuneration system such as the pay scales determined for the respective grades and ranks as well as the annual civil service pay adjustment), financial management (e.g. payment of civil service on-

costs¹ and payment of dividends to the Centre²), procurement (including procurement of stores and services as well as the conclusion of revenue contracts), etc. This constrains HKP's ability to respond to changes in market conditions and customer demands quickly.

4. Although under section 6(1) of the Post Office Ordinance (Cap. 98), HKP enjoys a monopoly over letters, which is intended to support the discharge of Government's universal service obligation, this monopoly has not been enforced for many years. While HKP's operation is subject to regulatory oversight, the postal and courier market in Hong Kong is entirely open with a low entry threshold and an absence of any requirement on regulatory compliance.

5. While HKP bears the responsibility to discharge Government's universal service obligation, its competitors may freely decide their service scope in terms of service type and geographical coverage. As a result, these competitors are diverse in their lines of business and scale of operation. Generally speaking, they tend to focus on profitable business areas (e.g. delivery to high density areas at relatively low charges due to lower costs, operating international delivery for a single destination/limited destinations for which cheaper air conveyance capacity is obtained, large couriers offering significant volume bulk discounts to selected customers, etc.). Non-profitable business, e.g. delivery to outlying islands which HKP has to serve under the universal service obligation, is left to HKP.

6. Although the proportion of social mail has dropped significantly in recent years due to e-substitution, the public generally still views HKP as providing a social service and resists it when HKP implements justified measures to improve its finances (e.g. closing loss-making post offices which have a lower service demand, adjusting postage rates and postal fees to improve costs recovery, etc.). At the same time, new services introduced by HKP could be quickly emulated at lower costs and lower prices. HKP also faces criticisms that it is competing with the market for profits.

7. HKP is essentially an industrial operation in a highly competitive market. While acknowledging the role of HKP in ensuring the continued provision of quality postal and related services at affordable prices to the community at large, in order to support its viable operation as a trading fund, there is scope for

¹ On-costs for civil servants refer to the expenditure on pensions and other fringe benefits such as housing benefits, medical and dental benefits, etc. Such expenditure is borne by the Centre centrally and HKP is required to pay on-costs to the Centre for the civil servants in its workforce. The on-costs attributable to pension payment is calculated based on the actuarial assessment, i.e. it is a contribution based on actuarial calculations to cover Government's future liability for pension payment. The rate of on-costs payment is adjusted by the Treasury periodically and is set at 34.39% of basic salary with effect from 1 August 2015.

² The POTF's dividend payment is based on its total comprehensive income and the dividend payment ratio is currently set at 50%.

providing a higher degree of institutional flexibility³ to HKP. In addition, when setting the target rate of return of the Post Office Trading Fund (POTF) and assessing its performance, due consideration should be given to its unique circumstances as outlined above and a holistic assessment should be made on the basis of HKP's overall operational and financial performance against the constraints inherent in its status as a government department.

8. During the last few years, HKP has made persistent effort to improve its operational and financial performance. As a result of such effort, operationally HKP fully achieved all its pledged performance standards in 2013-14 and 2014-15. Financially, through the implementation of a combination of measure to manage costs and generate revenue, the POTF's financial performance has improved significantly from an operating loss of \$114 million in 2012-13 to an operating profit of \$168.7 million (or a rate of return of 4.9% on ANFA) in 2014-15 albeit still falling short of its target rate of return of 5.9%.

9. In the process, we have made attempts to seek relaxation of some of the institutional limitations on HKP's operations. Such attempts in the past five years included:

- (a) In 2004, we obtained approval from the Financial Services and Treasury Bureau (FSTB) for waiving payment of dividend of \$21.5 million for 2003-04 so that the POTF could make continued investment for its future sustainable development by augmenting its reserve. We will continue to explore with FSTB whether there can be a modified arrangement that will better cater for the POTF's unique circumstances in FSTB's ongoing review on the optimum reserve level for trading funds;

³ The POTF:

- (a) is exempt from General Regulation (GR) 267, which provides that "Commercial transport may be hired for official journeys and approved home-to-office journeys only when no suitable departmental or pool transport is available. Heads of Departments must seek approval from the Director of Government Logistics before hiring vehicles other than taxis the use of which is governed by Civil Service Regulations 722(2)(e) and Civil Service Regulation 734(1)";
- (b) is exempt from GR 601, which provides that "Bureaux and Departments must channel all printing work through the Director of Government Logistics" (please see paragraph 9(e));
- (c) may negotiate for exemption from other procurement, supplies and financial regulations which are generally applicable to government departments; and
- (d) may negotiate to be untied from government departments which provide services to them.

- (b) The POTF is required to pay notional market rental on premises leased from the Government. The notional market rental for the Airport Post Office has been waived by the Government since April 2006. Subject to annual approval by the Government, the notional market rental for Tsim Sha Tsui Post Office has been waived since 2009-10 and the notional market rentals for another six post offices have been waived since 2011-12. We will continue to discuss the longer-term arrangements with FSTB;
- (c) In 2013, we obtained agreement for HKP to adjust the bulk postage rates for Local Mail and Air Mail on its own having regard to its costs and market conditions so that HKP may make more diverse service offerings in response to customer needs and recover costs in a more timely manner;
- (d) In 2014, we obtained approval from FSTB to modify the investment guidelines applicable to the POTF so as to allow the POTF more flexibility when investing its surplus funds. In 2011 and 2014, we sought and obtained FSTB's policy support in making investment placements with the Hong Kong Monetary Authority to generate income from the POTF's surplus funds;
- (e) In 2014, we obtained approval from Government Logistics Department (GLD) to procure printing service directly from outside contractors for all our departmental forms and stationery as well as philately-related products of non-classified nature;
- (f) In 2014, we raised concerns about the prevailing arrangement governing the POTF's payment of on-costs for civil servants in HKP. Such payment imposes a significant financial burden on the POTF. HKP is pursuing the matter with Treasury; and
- (g) HKP pays market rents, which are set by reference to the rateable values of the premises concerned, for ten government premises taken up by various operational units. In 2015, we requested the Rating and Valuation Department (RVD) to review these rateable values taking account of the restrictions on land use and the nature of these premises as government property. To date, the rateable value of one of the premises has been reduced. We await the review outcome of the remaining nine premises.

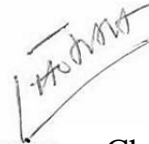
10. In addition, in 2014 and 2015 we made headway with untying from the Electrical and Mechanical Services Trading Fund (EMSTF) for the provision of maintenance service for selected non-mission critical equipment as well as maintenance service for selected departmental vehicles. The process is taken forward in a step-by-step manner in order to ensure uninterrupted provision of essential services in HKP.

11. We will build on the effort made hitherto and pursue with relevant bureaux/departments additional measures to provide a conducive environment for the POTF's sustainable development in the long run. This is essentially through enhanced flexibility to assist HKP in (i) costs management so as to improve the price-competitiveness of its services; (ii) cost recovery with more streamlined procedures for adjusting postage rates and charges for miscellaneous services; and (iii) business development to generate revenue. Measures under our consideration include:

- Appendix 53
- (a) *determination of the target rate of return of the POTF* – The existing target rate of return was set by reference to, among others, listed companies in the postal and courier sector worldwide (please refer to ~~FSTB's reply to the PAC dated 4 January 2016~~). As HKP remains a government department and it carries the responsibility to discharge Government's universal service obligations for postal services, we will pursue with FSTB whether and how allowance could be made when setting the target rate of return of the POTF in view of the inherent constraints of such a status and responsibility on HKP's commercial operation in the review to be conducted this year on the target rates of return for trading funds;
 - (b) *streamlining the statutory provisions on the scope of HKP's service and the postage/postal fee adjustment mechanisms* – The Post Office Ordinance (Cap. 98) and the Post Office Regulations (Cap. 98A) predate the establishment of the POTF. They are too restrictive in places (e.g. detailed arrangements for the operation of some of HKP's services such as Post Office box service, mail redirection, philately, etc., as well as the service charges, are laid down by statute). Any adjustments to the service features in the light of evolving customer needs and any revisions of service charges in order to recover escalating costs can only be made by means of legislative amendments. We will conduct a review on these statutory provisions and identify room for improvement, if any;
 - (c) *human resource management* – As a government department, HKP is primarily staffed by civil servants and their management has to comply with service-wide rules and regulations. Although HKP has a long history of employing contract staff to cope with peak periods of mail traffic, even before the establishment of the POTF in 1995, the management of all contract staff in HKP was subsumed under the Non-Civil Service Contract (NCSC) Scheme upon its service-wide introduction in 1999. We will explore with CSB whether there are appropriate arrangements for engaging contract staff that are more attuned to the manpower requirements of HKP, and whether and how recruitment processes can be streamlined;

- (d) *financial management and procurement* – We will continue to explore with FSTB and other relevant departments measures to provide additional flexibility for the POTF, including those items stated in paragraph 9 above and this paragraph as appropriate; and
- (e) *review of the Framework Agreement concluded between the Secretary for Commerce and Economic Development and the Postmaster General* – The Framework Agreement is due for review in 2016. We will take the opportunity to examine if there is scope for enhanced flexibility to facilitate the POTF's operations, in addition to the matters raised in paragraph 11 (a) to (d).

Yours sincerely,



(Lorrience Chow)
for Postmaster General

c.c. Secretary for the Commerce and Economic Development
Secretary for Financial Services and the Treasury
Director of Audit

Linking people Delivering business 傳心意 遞商機

8 January 2016

Mr Anthony Chu
Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

**Public Accounts Committee
Consideration of Chapter 5 of the Director of Audit's Report No. 65
Operation of the Hongkong Post**

Further to our letter dated 5 January 2016, we set out in the ensuing paragraphs the requested information under items (d), (h), (m), (n), (t), (v) and (w) in your letter of 22 December 2015. We will provide our response to items (a) to (c) shortly.

Hongkong Post operating as a trading fund

On item (d)

2. There is no universal definition of services under the ambit of the universal service obligation (USO). For the purpose of this response, we draw on the definition of the Universal Postal Union (UPU) on basic services¹ and mandatory supplementary services². Services falling within these scopes accounted for some 70% of HKP's revenue as well as costs in the past three years. Details are set out below :

¹ UPU requires its members to ensure that their designated operators accept, handle, convey and deliver letter-post items, which include priority items and non-priority items up to 2 kg; letters, postcards, printed papers and small packets up to 2 kg, etc.

² UPU requires its members to ensure that their designated operators provide mandatory supplementary services provision such as registration service for all inbound registered letter-post items, outbound priority and airmail letter-post items, etc.

	Revenue from USO services³	Cost of provision of USO services³
2012-13	66%	70%
2013-14	68%	72%
2014-15	69%	73%

3. Services provided by HKP that fall outside the afore-mentioned scope include Speedpost, Local CourierPost, the Hongkong Post Circular Service, philately, PayThruPost, Post Office Box service, mail redirection service, etc.

4. We wish to point out that in practice, most postal services provided by HKP that fall within the ambit of USO services as defined in paragraph 2 above (e.g. ordinary Local Mail and Air Mail, Bulk Air Mail, Local/Air/Surface Parcel, registered mail, etc.) are also used for conveying e-commerce purchases and patronised by e-merchants and consolidators.

Management of mail processing

On item (h)

5. As HKP's service provision is demand-led, the actual manpower requirement is subject to variations depending on the mail volume, the mix of mail types (e.g. mechanically or manually sorted), the time of mail acceptance, the class of mail (e.g. in the case of Local Mail, priority mail that requires delivery on the following working day versus economy mail that can be delivered within three working days), etc. In addition to seasonal fluctuations in the business volume, mail traffic also fluctuates from day to day in an unpredictable manner. Amidst such fluctuations in service demand, HKP is required to meet its performance pledges in service delivery some of which are very stringent⁴. To ensure cost-effective utilisation of resources, HKP maintains a workforce comprising civil servants⁵ and non-civil service contract (NCSC)

³ For the purpose of this response, USO services cover basic services and mandatory supplementary services as defined by the UPU.

⁴ In 2015-16, HKP has set 25 performance pledges. Examples include :

- Deliver 99% of locally posted letters to local addressees by the following working day
- Despatch outward airmail items, posted before the advertised latest time for posting, to the designated air carrier, subject to availability of flights

Non-peak periods : 99% within the same day or the following working day
Peak periods : 90% within 5 working days

⁵ Frontline civil servants mostly belong to the Postal Officer Grade and the Postman Grade, the conditioned hours of work of which are 44 and 48 gross hours per week respectively.

staff⁶ that is sufficient to cope with the regular workload, supplemented by overtime work to cope with fluctuations in workload.

Appendix 48

6. In paragraph 10 and Annex G in ~~our reply to the Public Accounts Committee (PAC) dated 9 December 2015~~, we explained the typical circumstances which give rise to overtime in different operational divisions under the Postal Services Branch (PSB). We further explain in paragraphs 7 to 21 below why it can be more cost-effective to cope with an increase in workload and staff shortage by undertaking overtime work rather than employing additional staff.

Post office counters

7. Most post offices are open for 7.5 hours (from 9:30 a.m. to 5:00 p.m.) on weekdays and 3.5 hours (from 9:30 a.m. to 1:00 p.m.) on Saturdays. 13 post offices⁷ operate extended service hours (for 8 to 12.5 hours on weekdays and 4 to 9 hours on Saturdays). The General Post Office (GPO) and Airport Post Office also open on Sundays and public holidays. The normal operation of a post office involves daily preparation work before the start of business as well as essential day-end activities (e.g. day-end balancing for each counter, dispatching mail accepted during the day to mail processing centres, handing over cash receipts to the contracted security company, etc.) after the close of business. While the daily preparation work takes about 15 minutes, the day-end activities take about 45 minutes depending on the scale of operation of a post office and the positions of the staff concerned. For instance, in most post offices, a counter staff member takes 15 minutes to complete his/her sub-stock balancing while the postmaster takes 45 to 75 minutes to complete the main stock balancing work. In view of the nature of the duties as well as the duration involved, it is neither practical nor cost-effective to employ additional staff to undertake these duties which are in excess of the conditioned hours of a regular staff as slack hours would inevitably result for these additional staff.

8. Notwithstanding the circumstances giving rise to overtime work, we have made continuous effort to minimise the need for overtime work as far as operationally practicable. For illustration, we set out below some of the measures we have implemented in this connection :

- (a) *staggering of the duty hours of post office staff* – For post offices with extended service hours (i.e. more than 7.5 hours on weekdays), we stagger the duty hours of the post office staff in a manner that caters for the

⁶ To provide flexibility in staff deployment in response to operational needs, there is a mix of monthly-, daily- and hourly-rated NCSC staff.

⁷ These post offices are : Tai Po Post Office, Tuen Mun Central Post Office, Yuen Long Post Office, Sha Tin Central Post Office, Tsuen Wan Post Office, Kowloon East Post Office, Cheung Sha Wan Post Office, Kowloon Central Post Office, Mong Kok Post Office, Shek Wu Hui Post Office, Tsim Sha Tsui Post Office, General Post Office and Airport Post Office.

counter patronage pattern as well as the preparation work before the start of business and the day-end activities after the close of business. For example, in addition to an early shift from 9:15 a.m. to 5:15 p.m., there is a second shift from 10:15 a.m. to 6:15 p.m. As the Postmaster of a post office is required to oversee the completion of all day-end activities, where operationally practicable, we arrange for him/her to report duty at a later hour in the morning than other counter staff so as to minimise the amount of overtime work required;

- (b) *rationalisation of the bulk posting counter network* – We reduced the number of post offices with bulk posting counters from 26 to 18 from September 2014 and facilitated bulk posting at the mail processing centres. As a result, we were able to reduce the amount of overtime work incurred by post offices arising from the handling of bulk mail acceptance;
- (c) *adjustment of the business hours of post offices* – Starting from April 2014, we ceased counter operation at Tsim Sha Tsui Post Office on Sundays in view of low service demand. Commencing from 2 February 2015, we suitably adjusted the business hours of 59 post offices in response to the prevailing service demand. The adjustment to the closing time of selected post offices means that the day-end activities in the post offices concerned can be completed earlier. Day-end mail collection from post offices for the entire collection route can also be advanced, resulting in earlier mail arrival at the mail processing centres. Such adjustment brings about annual savings of about \$4 million (including savings arising from less overtime work); and
- (d) *technological solutions* – The Integrated Postal Services System (IPSS) automates counter operation and streamlines the backend work processes in post offices, including the day-end balancing work. The EC-ship platform, our on-line posting platform, enables bulk mailers to prepare their postings in advance and accelerates mail acceptance at the counter, which often takes place in the late afternoon before the post offices close.

Local mail processing

9. HKP processes some 3 million of locally posted mail items every day. Over half of the mail collected from post offices and street posting boxes arrive at the Central Mail Centre (CMC) in the late afternoon/early evening. Given HKP's stringent performance pledge of delivering 99% of the locally posted mail items to local addressees on the following working day, there is only a very narrow window for processing such mail, sorting them to the respective delivery offices/delivery beats and conveying them to the respective delivery offices before they start operation early next morning.

10. Resource planning at the CMC is further complicated by fluctuations in the daily mail volume, which cannot be precisely forecast. For illustration, the daily mail volume fluctuated between 2.7 million items and 6.9 million items in April 2015. The unpredictable late influx of mail at the CMC leaves few feasible options other than overtime work and adjusting the work hours of daily-/hourly-rated NCSC staff given the need to meet HKP's pledged performance standards. Except for known peak periods of mail traffic (e.g. processing of election mail in the run-up to District Council/Legislative Council elections, processing company reports, etc.), for which we arrange additional support by engaging temporary staff, it would not be cost-effective to engage additional staff for the CMC on a regular basis during other periods as there is insufficient workload to keep them fully occupied.

11. To tackle the issue of fluctuating mail traffic and the concentration of workload during the evening at the CMC, we have implemented a variety of measures as set out below in order to minimise the incurrence of overtime work :

- (a) *upgrading the Mechanised Letter Sorting System (MLSS) at the CMC* – Taking the opportunity of the reprovisioning of the International Mail Centre (IMC) and the GPO Sorting Office to the CMC, we have upgraded the MLSS to achieve a processing speed of 39 000 items per hour and to sort local letters direct to individual delivery beats;
- (b) *developing a Chinese Character Optical Recognition capability for the MLSS* – This project is in progress. When the system is fully commissioned by November 2016, 91 000 mail items bearing Chinese addresses can be sorted mechanically daily, thus reducing the reliance on manual sorting and overtime work; and
- (c) *load-levelling and work-sharing with bulk mailers* – We have been offering advice to bulk mailers on how to improve their mail make-up (e.g. packaging, envelope design, the font size of recipient addresses, address presentation, etc.) as well as assistance in cleansing their address databases in order to increase the volume of mail items that can be successfully processed by the MLSS. In addition, we have introduced load-levelling and work-sharing measures (e.g. encouraging posting preparation on our online posting platforms for early capture of posting information to facilitate resource planning by HKP, evening out the concentration of mail arrival at the mail processing centres by introducing pre-booking of posting slots at the CMC, etc.) to even out the mail processing workload at the CMC.

International mail processing

12. The volume of international mail volume fluctuates and is highly volatile as it is affected by the global economic condition as well as acute competition

from other service providers. For illustration, the daily outbound airmail volume in December 2015 fluctuated between 8 300 mail bags to 12 600 mail bags. Variations in the mail mix in terms of item size (e.g. large parcels require more manual effort in mail segregation and packing of mail bags) and despatching standards (e.g. same-day dispatch for Speedpost items and longer timeframes for other mail types such as “within seven working days” for outbound bulk airmail items during peak periods) on a day-to-day basis have a significant impact on the manpower requirements. Moreover, any last-minute flight cancellations or aircraft changes would mean a lot of abortive as well as additional work for the Air Mail Centre (AMC).

13. It is also noteworthy that while the arrival/departure time of the international mail handled by the AMC spreads throughout the day, workload concentrates in the evening from 6 p.m. to 9 p.m. in order to catch the departure of flights destined for the major destinations of our outbound mail in Europe and the US.

14. In view of the unpredictable nature of the outbound mail volume and the circumstances mentioned in paragraph 13 above, it is not always practical nor cost-effective to engage additional staff on a regular basis to cope with the workload at the AMC as slack hours will inevitably result. Overtime work to be undertaken by the staff already on the shop floor is often a more pragmatic solution, especially when there is an urgent need to dispatch the mail volume in hand the same evening. Moreover, as we are currently experiencing difficulty in recruiting NCSC staff and although the situation is improving, the creation of additional positions would not provide immediate relief. Notwithstanding the foregoing, we have implemented various measures as set out in paragraphs 28-30 in ~~our reply to the PAC dated 5 January 2016~~ to reduce the incurrence of overtime work at the AMC. *Appendix 56*

Mail delivery

15. HKP provides mail delivery service six days a week. The conditioned hours of work of the Postman grade (i.e. 48-hour a week) matches this service requirement. Delivery beats are created based on an assessment of the normal delivery workload in accordance with an established methodology. The daily standard workload of a delivery beat is normally set close to, or equal to, 420 minutes.

16. However, the mail volume for delivery fluctuates and cannot be precisely forecasted. Moreover, proper performance of delivery work relies on the local knowledge of the delivery beat. It is both expensive and impractical to engage additional staff to cover the same delivery beat in the absence of any confirmed long-term operational needs as slack hours will inevitably result. For short-term and/or seasonal fluctuations in the delivery workload, it is also difficult to rely

on temporary staff to assist in the delivery work due to the considerable training effort required to equip the new staff with the necessary local knowledge.

17. Given the need to meet HKP's performance pledges for mail delivery⁸, it is not always possible for the delivery offices to defer the delivery work to another day. Whenever the actual delivery workload for the day is assessed to exceed the standard workload of a delivery beat, Postal Inspectors will consider the possibility of sharing out the extra workload within the delivery office and only if it is unavoidable will overtime work be approved.

18. Although the need for overtime work in delivery offices cannot be removed altogether, we have adopted a variety of measures to reduce the overtime work for delivery postmen as far as practicable :

- (a) *prioritisation of delivery work* – Economy Local Mail (for delivery within three days after the day of posting) or Hongkong Post Circular Service mail (for delivery within four days after the day of posting) have longer delivery timeframes. Postal Inspectors will organise the delivery of such mail to optimise the flexibility offered by the relevant performance pledges with the objective of reducing the need for overtime work;
- (b) *rationalise work organisation in a delivery office* – To fully capitalise on the local knowledge of delivery postmen of their delivery beats, we seek to reserve as much of their available hours of service for outdoor delivery duty as possible. To this end, we have engaged NCSC staff as well as hired vehicle services to relieve delivery postmen from non-core work processes, such as pouch preparation, pouch feeding, etc. Please refer to our response on item (l) in ~~our reply to the PAC dated 9 December 2015~~ *Appendix 48* for details;
- (c) *engagement of temporary staff for known traffic peaks* – For known peak periods of delivery workload (e.g. delivery of election mail), we will recruit additional temporary staff to assist in some of the backend work processes in delivery offices in order to reduce the reliance on overtime work; and
- (d) *offering alternatives to door delivery* – Door delivery, including the handling of items that cannot be successfully delivered, is labour-intensive and costly. In view of the increase in mail items requiring door

⁸ In 2015-16, the performance pledges for mail delivery include :

- Deliver 99% of locally posted letters to local addressees by the following working day
- Deliver 99.5% of Bulk Economy letters to addressees within 3 working days
- Deliver 99.9% of Hongkong Post Circular items within 4 working days
- Deliver 99% of inward airmail items within 2 working days after arrival in Hong Kong

delivery due to the growth of e-commerce, we have been offering alternatives to door delivery such as :

- (i) *Partnership with the Post Scheme* – Under this scheme, a mail item for which door delivery is unsuccessful is handed to the management office of the delivery address for collection by the recipient upon return. This saves the delivery postman's effort in the subsequent handling and recording of the mail item; and
- (ii) *introduction of counter collection service options* – For instance, we have introduced Smart Post to provide customers with a choice to collect their mail items at designated post offices at a lower postage fee. We have also launched a counter collection service for e-commerce purchase (such as purchases made on Taobao).

19. In view of the labour-intensive nature of postal operations, staff shortage naturally has a negative impact on service provision. Such shortage may arise from vacancies pending the completion of recruitment and promotion exercises (i.e. institutional vacancies) and temporary staff absence due to vacation leave, sick leave, clearance of time-off in lieu and training, etc.

20. For institutional vacancies concerning civil service posts, they are short-term in nature. Instead of engaging additional staff which is difficult to justify, we seek to provide relief through various means in addition to overtime work, e.g. short extension of the service of retiring officers, temporary redeployment of staff in the leave reserve or the TOIL clearance team to fill the vacancies, etc. (please also refer to paragraph 8 in ~~our reply to the PAC dated 17 December 2015~~ *Appendix 45*). As regards NCSC vacancies, we are addressing the situation in a targeted manner having regard to the circumstances of the operational unit concerned as illustrated by the action taken in response to the NCSC vacancies at the AMC (please refer to paragraph 9 in ~~our reply to the PAC dated 17 December 2015~~ *Appendix 45* and paragraph 28 in ~~our reply to the PAC dated 5 January 2016~~).

Appendix 56

21. As regards staff shortage due to temporary staff absence, in addition to overtime work, we seek to ameliorate the negative impact by enhanced management of leave-taking of staff, effective deployment of staff in the leave reserve, where applicable, and imposing restriction on leave-taking during peak seasons. These are more pragmatic and cost-effective solutions than augmenting the workforce with additional regular staff.

Management of post offices

On item (m)

22. The productivity indices of post offices in 2011-12 to 2013-14 are set out below :

Productivity index	Number of post offices in 2011-12	Number of post offices in 2012-13	Number of post offices in 2013-14
up to 50%	2	2	2
51% to 60%	6	3	6
61% to 70%	11	16	17
71% to 80%	34	41	51
81% to 90%	42	44	39
91% to 100%	23	14	8
over 100%	10	8	5
Total	128	128	128

Note : The above table covers mobile post offices.

23. We wish to make the following observations :

- (a) The productivity index of post offices is but one of the indicators to assist assessment on the operational efficiency and cost-effectiveness of post offices. It has its limitations in that it only measures the time required for transactions conducted over the counters and applies a ratio to project the time required for back-office activities (such as mail despatching and loading/unloading, day-end balancing, handling of customer enquiries, verification of the number of call-for items received from delivery offices, etc.). As such, it cannot fully reflect the workload and operational realities of individual post offices (e.g. post offices providing bulk mail acceptance service, post offices with a large number of service-specific counters, post offices with a mail loading/unloading location far away from the post offices, etc.). Thus, we need to refer to other mail traffic and resource information, along with the productivity index, for assessing the performance of each post office having regard to the operational circumstances of individual post offices;
- (b) Those post offices with a productivity index at or below 70% are broadly categorised into two groups :
 - (i) two-man or three-man post offices located on outlying islands/in more remote areas and mobile post offices for which the manpower deployed is already minimal; and
 - (ii) post offices with extended business hour such as the General Post Office, Airport Post Office and Kowloon Central Post Office;

- (c) The increase in the number of post offices in the past few years under group (i) reflects a continuous drop in the transaction volume (including the posting volume) they handled. However, as most of them are already operating with the minimal staff deployment, there is no room for a further reduction in the staffing level. This has resulted in a relatively lower productivity index for the post offices concerned. The postmasters in selected post offices in group (i) (e.g. Lamma Post Office, Mui Wo Post Office, Peng Chau Post Office and Tai O Post Office) also oversee the operation of the adjacent delivery offices, thus achieving more cost-effective operation of these delivery offices. This is, however, not reflected in the productivity indices of the post offices concerned; and
- (d) For post offices under group (ii), they are generally located in major commercial areas and operate extended business hours in response to service needs. Given the nature of such service provision⁹ and the scale of their operation¹⁰, their productivity indices are comparatively lower than other post offices operating normal business hours.

24. In discharge of Government's universal service obligation, HKP is required to maintain reasonably accessible postal service provision, including post office counter service. We also need to take account of the post office provision standards and guidelines contained in the Hong Kong Planning Standards and Guidelines. In other words, in rationalising the post office network, HKP has to take into account a host of consideration factors rather than the productivity index of the post office concerned alone.

25. We have implemented a number of resource-management and business development measures to improve the productivity of post offices, including :

- (a) *adjustment of the service hours of post offices* : From April 2014, Tsim Sha Tsui Post Office ceased to operate counter service on Sundays. From 2 February 2015, we adjusted the service hours of 59 post offices which have a relatively low service demand or whose service boundary overlaps with those of neighbouring post offices. We have since observed an improvement in the productivity indices of these post offices;

⁹ For example, the General Post Office operates round the year except the first day of the Chinese New Year and it is open for business from 8:00 a.m. to 6:00 p.m. on Mondays to Saturdays and from 9:00 a.m. to 5:00 p.m. on Sundays and public holidays. Airport Post Office opens for business from 8:00 a.m. to 8:30 p.m. on Mondays to Saturdays and from 8:00 a.m. to 5:00 p.m. on Sundays and public holidays.

¹⁰ For example, in the General Post Office, which provides the full range of HKP's services, staff are assigned to man counters separately designated for PayThruPost, Speedpost & Parcel acceptance and bulk mail acceptance, etc. In comparison, post offices of a smaller scale of operation offer a broader range of services at the same counter.

- (b) *rationalisation of the bulk posting counter network* : The number of post offices with bulk posting counters was reduced from 26 to 18 from September 2014. With subsequent redeployment of staff from post offices that ceased to provide bulk mail acceptance, the productivity of these post offices has improved;
- (c) *staggering of the duty hours of post office staff and flexible staff deployment for neighbouring post offices* : These measures help to better align manpower resource with service needs and reduce overtime work;
- (d) *counter automation under the new IPSS* : The IPSS streamlines the daily operation at post offices and, in combination with other parallel measures, helps reduce overtime work and thus improve productivity; and
- (e) *generation of service demand through new/expanded services* : These include introduction of counter collection services for online purchases in response to the growth of e-commerce¹¹, recruiting additional merchants for bill payment under the PayThruPost service, recruiting new mail traffic in collaboration with external partners (e.g. local/international delivery for purchases exceeding specified amounts made at the Hong Kong International Airport), etc.

On item (n)

26. HKP has made continuous effort to enhance its productivity and operational efficiency through automation, mechanisation, work process re-engineering, load levelling measures and work-sharing with mailers. Examples for illustration are set out below :

- (a) *consolidate the IMC and the GPO Sorting Office into a unified mail processing facility at the CMC* – The new facility, which was fully commissioned in November 2014, processes some three million mail items daily. It achieves economy of scale in mail processing by combining the work processes that were previously split between two centres. The expanded shop floor eases congestion and allows a smoother and more efficient mail flow. Assisted by upgraded letter sorting facilities and rationalised mail flow, the project achieves a reduction of 96 posts;
- (b) *upgrading the MLSS at CMC* – Taking the opportunity of the CMC project, the MLSS were upgraded to achieve a processing speed of 39 000 items per hour and to sort local letters direct to individual delivery beats. Together with strict enforcement of the posting conditions for bulk mail on envelope dimensions and address presentation, the successful read rate

¹¹ Counter collection services for online purchases have the additional benefit of reducing the manpower demand for mail delivery.

has been improved from 87% under the previous MLSS to 89% under the upgraded MLSS;

- (c) *implementing the IPSS* – The new system, which was rolled out in phases from September 2014 and fully commissioned in December 2015, automates counter operation, integrates the frontend work processes with the backend operation, and streamlines the work processes at the backend. The management statistics available from the system assists monitoring of operational performance and supports decision-making on postal operations and business development. The full commissioning of the system is expected to achieve estimated annual net savings of about \$18 million;
- (d) *developing a Chinese Character Optical Recognition capability for the MLSS* – This capability is under development. When the system is fully commissioned in November 2016, 91 000 mail items bearing Chinese addresses can be sorted mechanically daily, thus reducing the reliance on manual sorting;
- (e) *developing online posting platforms and Application Program Interfaces* – We have set up two online posting platforms, namely EC-Ship and My Speedpost, to facilitate posting preparation by mailers (e.g. postage calculation, printing address labels, tracking mail delivery, etc.). The Application Program Interfaces further enable e-merchants to complete posting preparation on their e-commerce platforms as the electronic posting information can be uploaded direct to HKP's online posting platforms. Electronic posting information is made available to the mail processing centres earlier for advance resource planning purpose. These online posting facilities also help streamline mail acceptance and reduce the transaction time at counters, to the mutual benefit of mailers and HKP;
- (f) *re-engineering the processing of Bulk Air Mail (BAM)* – BAM used to be processed entirely at the AMC. We implemented various measures to enhance the productivity and operational efficiency of BAM processing, including :
 - (i) requiring BAM to be posted by permit mailing, thus obviating the need for stamp cancellation for individual items. The imposition of a minimum weight per bag requirement helps ensure more compact mail bags, thus improving productivity in mail processing and the utilisation of air conveyance capacity;
 - (ii) relocating some of the work steps to the BAM Centre at Tsuen Wan and CMC so that the BAM bags will arrive at the AMC for uplifting to flights in a just-in-time operation mode; and

- (iii) relocating part of the aviation security screening procedure to the BAM Centre at Tsuen Wan and CMC so that BAM bags that fail the x-ray screening will be returned to the mailers at the point of mail acceptance. This speeds up the x-ray screening and avoids congestion there at AMC;
- (g) *developing a Mail Flow and Mail Tracking System* – Taking the opportunity of the redevelopment of the existing Track and Trace System, we will upgrade the system functionality to support our postal operations and enhance customer experience (e.g. enhancing the work flow for processing BAM and handling mail tracking enquiries, improving information flow to facilitate resource planning and deployment as well as performance monitoring of mail flow, etc.). The redeveloped system will be rolled out in phases from September 2016. Upon full commissioning by March 2017, the system is expected to achieve estimated annual net savings of about \$1.5 million;
- (h) *adjusting the service hours of 59 post offices with low patronage/in close proximity to other post offices* – This measure, which was implemented on 2 February 2015, enables earlier arrival of mail collected from post offices at CMC and AMC during the rush hours in the evening and brings about annual savings of about \$4 million due to a reduction of overtime work in post offices and the mail processing centres;
- (i) *rationalising the bulk mail acceptance counter network* – We rationalised the network from 26 mail acceptance counter offices to 18, with one in each of the 18 districts, in September 2014, thus optimising utilisation of transportation resources for mail conveyance;
- (j) *rationalising the transportation routes for mail conveyance* – To optimise the utilisation of transportation resources for mail conveyance following the reprovisioning of the IMC and the GPO Sorting Office to CMC, we have comprehensively reviewed the routing of our transportation network. For example, we have set up a new GPO transportation hub to consolidate the conveyance of mail between Hong Kong Island and CMC. This streamlined transportation arrangement has improved operational efficiency and minimised HKP's transportation cost;
- (k) *implementing load-levelling measures to optimise resource utilisation* – We encourage mailers to pre-book posting slots at CMC, AMC and the BAM Centre to ease traffic peaks. We have also extended the latest time of posting at CMC to ease congestion at other mail acceptance counters towards the close of business hours;
- (l) *pursuing working-sharing with bulk mailers* – We promote various work-sharing measures such as pre-sorting and mail sequencing by mailers to

reduce mail sorting effort after mail acceptance, devising customised delivery solutions that meet the posting needs of mailers while optimising HKP's resource utilisation (e.g. delivery within a longer timeframe at lower prices), etc.; and

- (m) *introducing a counter collection service* – In response to the increase in packet and parcel traffic which requires door delivery, we have introduced Smart Post for local mail with a choice between door delivery and counter collection as well as a counter collection service for online purchases. These services benefit users due to economical charges made possible by lower operating costs as well as HKP due to a reduced demand for door delivery, which is labour-intensive.

Management of postal vehicles

On item (t)

27. The reasons for the low utilisation rate (50% or below) of the 15 vehicles in Table 14 of the Audit Report are set out in **Annex A**.
28. The main reasons for the low utilisation rates and, where applicable, measures to increase utilisation are summarised below:
- (a) The vehicles were reserve vehicles to provide support when the regular fleet was under scheduled or unforeseen maintenance to ensure undisrupted service provision. Given the purpose of reserve vehicles, we need to ensure that they are available for use whenever required and could not over-commit them for other regular duties. Thus, their utilisation tends to fluctuate depending on the maintenance needs of the regular fleet. We will deploy the reserve vehicles to take up additional ad hoc duties as far as operationally practicable;
 - (b) The methodology for calculating vehicle does not reflect the usage pattern of the vehicles, e.g. the service duration of vehicles deployed for motorised beats is about 5.5 hours a day instead of nine hours a day as assumed under the prevailing methodology. We are reviewing the methodology and aim to implement the revised methodology from April 2016. The utilisation of these vehicles will be reflected more accurately under the revised methodology. For small estate cars, due to their limited storage capacity, there are few alternative uses. For vans and trucks, we will identify additional duties as far as operationally feasible;
 - (c) The vehicles are electric vehicles. Due to functional limitations, they are generally used only for shorter journeys to ensure that they have a sufficient electricity supply; and
 - (d) The utilisation of the vehicles were limited by a shortage of drivers arising from the retirement and/or promotion of the incumbent drivers. The vacancies

***Note by Clerk, PAC:** Please see Appendix 64 of this Report for Annex A.

could not be readily filled as it took time for staff with valid driving licences to obtain a licence for driving government vehicles. We identified suitable candidates in the recent internal recruitment exercise conducted in September 2015. They will fill the vacancies once they have obtained a licence for driving government vehicles. To expand the pool of Postman Drivers, we will arrange more suitable candidates with a driving licence to attend training and take the test for driving government licences.

29. With continuous effort to enhance the utilisation of these vehicles and notwithstanding the limitations explained above, we observe an improvement in the overall utilisation rate of these 15 vehicles by 11 percentage points during the period from September to November 2015. We expect the utilisation rate to further improve following the planned redeployment and scheduled disposal of some of the vehicles as indicated in **Annex A**.

On item (v)

30. Hired vehicles are deployed to different operational units to support a variety of key operational functions as set out below:

- (a) conveyance of mail between post offices, delivery offices and mail processing centres;
- (b) delivery of mail pouches to designated second pouch depositories and conveyance of postmen to the respective starting points of their daily delivery duty;
- (c) supporting motorised delivery beats; and
- (d) supporting the Speedpost teams for the collection of Speedpost items from clients and delivery of Speedpost items and parcels.

31. The service scope of hired vehicles (including vehicle type; hiring period such as the daily commencement and finishing time, day of service on a weekly basis and the length of the service period; geographical coverage of service provision, etc.) and the arrangements for extension of service hours are specified in the contracts concluded between HKP and the service providers. HKP has an established mechanism for monitoring and managing the performance of hired vehicles to ensure that the service and performance requirements under contract are fully met.

32. As hired vehicles are engaged on a time-charge basis, we pay particular attention to the on-time performance of hired vehicles, i.e. whether their arrival and departure at designated call points follow the scheduled arrival/departure time. Measures implemented in this regard are set out below :

***Note by Clerk, PAC:** Please see Appendix 64 of this Report for Annex A.

- (a) Drivers of hired vehicles are required to sign in and sign off in the attendance books of the operational units they are assigned to under supervision when they commence or finish their daily duty. Supervisors or the designated HKP's staff in the respective operational units check the punctuality of the drivers;
- (b) Drivers of hired vehicles are required to each complete a vehicle daily log sheet which records the arrival/departure time of each hired vehicle at specified points :
 - (i) For hired vehicles deployed for conveyance of mail between post offices, delivery offices and mail processing centres, the arrival/departure records must be endorsed by the designated HKP staff at the call points. For call points where there are no designated HKP staff to endorse the arrival/departure time (such as mail pick-up locations on customers' premises), a HKP escort will be provided to the hired vehicles for both mail security and service monitoring;
 - (ii) For vehicles deployed for motorised delivery beats and delivery of second pouches, they operate on fixed routes and HKP's escort on board will report any irregularities observed en route to their supervisors for follow-up; and
 - (iii) For vehicles deployed to the Speedpost teams, while they are assigned to cover a specified geographical area, the precise routing varies on a day-to-day basis depending on the delivery points. The HKP escort on board is required to record the arrival/departure time for each call point on the vehicle daily log sheet;
- (c) Upon completion of the daily service of each hired vehicle, supervisors or the designated HKP officers in the operational units to which the hired vehicles are assigned are required to verify and endorse the vehicle daily log sheets, and to provide justifications if approval is given for an extension of the service hours;
- (d) For those hired vehicles with HKP staff on board, the staff will report any irregularities (e.g. delay in vehicle arrival) to the supervisors at the respective operational units to which the hired vehicles are assigned;
- (e) To assist supervisors in monitoring the performance of hired vehicles, for hired vehicles deployed for conveyance of mail between post offices, delivery offices and mail processing centres, the actual arrival/departure time of hired vehicles at different call points of HKP's offices as recorded on the vehicle daily log sheets are captured electronically in the departmental eTick Sheet System. The system generates an exception report automatically if the actual arrival/departure time deviates from the

scheduled time. Supervisors review these exception cases and take appropriate follow-up action, if warranted;

- (f) Superintendents of Posts in the respective operational units conduct snap checks on the completeness of the vehicle daily log sheets and the reasonableness of any extension claims on a weekly basis. They also conduct snap checks on the punctuality of hired drivers on a monthly basis. In addition, Managers conduct snap checks on the above-mentioned areas on a bi-monthly basis. Any irregularities will be followed up;
- (g) For hired vehicles deployed for motorised delivery beats and the Speedpost teams, Postal Inspectors in the respective operational units are required to conduct spot checks at selected call points at a prescribed frequency (i.e. at least 6 times a year, one of which should be a last call-point check, for each motorised delivery beat and at least 24 times a year for each Speedpost team). In addition, Senior Postal Inspectors/Superintendents of Posts and Managers are required to conduct superior checks (i.e. at least one Postal Inspector every week/fortnight for Senior Postal Inspector/Superintendents of Posts and at least one Postal Inspector each month for managers) to maintain proper control over the performance of delivery postmen/Speedpost team and operation of hired vehicles;
- (h) Contract administrators (i.e. Mail Processing Division for trucks and Management Services Division for light goods vehicles) are required to collate the performance evaluations made by users on a monthly basis for performance management purpose and, in the event of under-performance, appropriate follow-up actions will be taken; and
- (i) Regular performance review meetings are conducted with contractors.

33. For hired vehicles deployed to support motorised delivery beats and the Speedpost teams, commencing from July 2015, we have strengthened control by requiring compliance reports on the conduct of beat inspections to be submitted to Postal Services Branch Headquarters for review. In addition, 4 SPO posts were created in November 2015 for two years, in the first instance, for stepping up the conduct of superior checks.

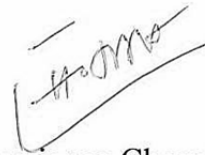
34. We are in the process of installing global positioning system (GPS) on departmental postal vehicles deployed to Speedpost Centres in phases to facilitate monitoring of their utilisation. Subject to a review on the effectiveness of the facility, we may consider installing mobile GPS on hired vehicles in the long run to support more efficient performance management of these vehicles.

Management of Central Mail Centre and General Post Office Building

On item (w)

35. We have reviewed the allocation plan for the 46 work stations on the fifth floor of the CMC having regard to our updated operational and accommodation needs. The updated allocation plan is at **Annex B**.

Yours sincerely,



(Lorrience Chow)
for Postmaster General

c.c. Secretary for the Commerce and Economic Development
Secretary for Financial Services and the Treasury
Director of Audit

***Note by Clerk, PAC:** *Please see Appendix 65 of this Report for Annex B.*

Linking people Delivering business 傳心意 遞商機

Our ref. : HKP FSD/4-35/FM1C

Your ref. : CB4/PAC/R65

9 December 2015

Mr Anthony Chu
Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

**Public Accounts Committee
Consideration of Chapter 5 of the Director of Audit's Report No. 65
Operation of the Hongkong Post (HKP)**

Thank you for your letter of 1 December 2015. The requested information under items (d) to (h) and (k) to (m) is set out in the ensuing paragraphs. We will provide our response to the remaining items shortly.

On item (d)

2. Letters/flats and packets are all no more than 2 kg per item. We do not have a detailed breakdown of these mail items in our mail traffic statistics. For an overview of the mail volume handled by HKP, we provide a breakdown at **Annex A** by the following categories (local and international mail included) : Letters and Packets (i.e. up to 2 kg), courier mail (i.e. Local CourierPost and Speedpost) and Parcels.

On item (e)

3. The key performance indicators adopted for assessing the operational and financial performance of the POTF are :

***Note by Clerk, PAC: Annex A not attached.**

- (a) *Performance pledges for operational performance* – There are altogether 25 performance pledges for various aspects of HKP’s operations. The results for 2010-11 to 2014-15 are at **Annex B**. With persistent effort to enhance our operational performance, HKP met all performance pledges in 2013-14 and 2014-15; and
- (b) *Achievement of the self-financing requirement and a reasonable rate of return* – The POTF manages its financial affairs in a manner to ensure that :
- (i) within a reasonable time, it is able to meet expenses incurred in the provision of its services and finance liabilities of the trading fund out of the income of the trading fund, taking one year with the other; and
 - (ii) it achieves a reasonable return on the fixed assets employed as determined by the Financial Secretary.

In 2010-11 to 2014-15, the POTF was able to meet its operating expenses with its operating revenue and other income (please see **Annex C**). During the same period, the rate of return of the POTF was :

Financial year	Operating profit/loss (\$M)	Rate of return on average net fixed assets (%)	Target rate of return on average net fixed assets (%)
2010-11	136	3.8%	8.4
2011-12	(50)	(1.9%)	8.4
2012-13	(114)	(3.9%)	5.9
2013-14	(3)	(0.5%)	5.9
2014-15	169	4.9%	5.9

The improving financial performance of the POTF is a reflection of the continuous effort of HKP in implementing a diverse range of targeted cost-management measures to enhance its operational efficiency and effectiveness as well as revenue-generation measures that cater for the evolving service needs of its customers. This effort will continue; and

- (c) *Customer satisfaction level* – HKP also gauges customer feedback on its service quality by means of an annual customer satisfaction survey conducted by an independent external consultant. The overall customer

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

satisfaction level as reflected in the survey findings is consistently high as shown below :

Service Areas	2014-15	2013-14	2012-13	2011-12	2010-11
Overall service	98.7%	98.7%	98.5%	99.2%	98.6%
Counter service	97.7%	96.8%	96.9%	97.6%	97.9%
General delivery Service	98.8%	98.6%	98.5%	98.7%	98.7%

On item (f)

4. Measures adopted by HKP to generate revenue and its effort to introduce new services in recent years are set out in **Annex D**.

On item (g)

5.. A breakdown of the POTF's operating revenue in 2010-11 to 2014-15 is at **Annex E**. We wish to point out that while the services grouped under "e-services" specifically cater for the delivery needs of e-merchants and are typically used for e-commerce transactions, the services grouped under "regular mail services" and "competitive mail services" are increasingly used for e-commerce purposes to meet the diverse delivery needs of e-merchants depending on their budget as well as their preferences regarding speed of delivery, mail tracking and proof of delivery. As we do not require mailers to indicate whether their postings are for e-commerce purposes, we are unable to ascertain the precise proportion of revenue for the categories of "regular mail services" and "competitive mail services" that is attributable to e-commerce.

On item (h)

6. The Business Development Branch (BDB) in HKP, headed by Assistant Postmaster General (Business Development), is responsible for business strategy formulation, product/service development, marketing and sales as well as customer relationship management. It also oversees the product management for Local Mail, Speedpost and digital certificates, and the stamps and philately portfolio. The organisation chart, establishment and strength of the Business Development Branch are at **Annex F**.

***Note by Clerk, PAC:** *Please see Appendices 49 and 50 of this Report for Annex D and E respectively, and Annex F not attached.*

On item (k)

7. As at 31.3.2015, there were 2 064 NCSC positions in HKP. Of the 1 854 NCSC positions in the Postal Services Branch, 1 742 were filled comprising 7 managerial staff and 1 735 non-managerial staff. The non-managerial staff were categorised as follows :

Category I : Customer Service Officer (monthly-rated); 71 staff

Category IA : Customer Service Officer (Mail Tracing Office) (monthly-rated); 63 staff

Category II : Operations Assistant (monthly/daily/hourly-rated) and Administrative Assistant (monthly-rated); 259 staff

Category III : Driver (monthly-rated), Sorting Office Assistant (monthly/hourly-rated) and General Assistant (monthly-rated); 377 staff

Category IIIA : MLSS Operations Assistant (monthly/daily/hourly-rated); 105 staff

Category IV : Worker (monthly/daily/hourly-rated), Worker (Platform) (monthly/daily/hourly-rated); 783 staff

Part-time Sorters : joining HKP before the introduction of the NCSC Scheme; 77 staff.

On item (l)

8. To ease the workload of delivery postmen, we have engaged NCSC staff to assist them in conveying sorted mail in the delivery office to the workstations of individual postmen, mail sequencing work in accordance with the pre-designed routeing of individual beats, loading mail pouches onto feeding vehicles so that delivery postmen could start their delivery rounds earlier, and clearing and returning all sorting tools/equipment for use by postmen after their departure for their delivery duty. NCSC staff are also deployed to despatch mail items to some 1 600 second pouch boxes across the territory, thus obviating the need for delivery postmen to return to their respective delivery offices for collecting additional mail for delivery on their beats. Moreover, we have engaged additional hired vehicles for transporting postmen and feeding mail pouches in replacement of departmental crew buses manned by Postman drivers, thus releasing more postmen for delivery duty.

On item (m)

9. Postal operation is labour-intensive. Moreover, operating in a highly competitive market, HKP's service provision is demand-led. The volume of local and international mail handled by HKP fluctuates at different hours of the day, on different days of the week and at different times of the year. In order to ensure optimal resource deployment and avoid slack staff hours in the face of fluctuating and unpredictable service demand and to meet its stringent performance standards, HKP engages a workforce comprising civil servants and monthly/daily/hourly-rated NCSCS, supplemented by overtime work as justified.

10. Overtime work beyond an officer's regular hours of work is undertaken only when it is strictly "unavoidable". Typical circumstances which give rise to overtime work in different operations divisions under the Postal Services Branch are illustrated at **Annex G**.

11. The control mechanism for overtime work in HKP is stipulated in the HKP Departmental Rules. To enhance awareness and compliance, briefings are conducted for supervisors and managers on proper administration of overtime work, and the departmental guidelines are regularly re-circulated to the staff concerned. The key requirements under the departmental control mechanism are set out at **Annex G**.

12. In addition, HKP has made persistent effort to reduce overtime work at source through business process re-engineering, automation, mechanisation as well as load-leveilling measures. Details are set out at **Annex G**. Savings of about \$7M in overtime work (excluding other notional savings) was achieved in 2014-15 through these measures.

13. HKP accumulated a fairly large balance of uncompensated TOIL hours as a result of a measure implemented a few years ago to compensate a relatively larger proportion of newly accumulated overtime hours by TOIL instead of overtime allowance. This has much constrained the scope for compensating newly accumulated overtime hours by TOIL. To address this issue, we have stepped up effort since 2011-12 to work down the overall balance of uncompensated TOIL hours in the Department, including the establishment of a dedicated team (currently comprising 40 civil service posts and NCSC positions) to clear the accumulated uncompensated TOIL balance, with priority being given to those cases with a relatively higher balance of uncompensated overtime hours as well as staff approaching retirement.

***Note by Clerk, PAC:** Please see Appendix 57 of this Report for Annex G.

14. To ensure compliance with the service-wide requirement that TOIL is preferably granted 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, we introduced a self-declaration requirement in August 2015 in the Postal Services Branch, requiring staff in the Postal Officer grade and the Postman grade to declare their accumulated uncompensated TOIL balance and vacation leave balance when submitting vacation leave applications. We are improving access for staff to check their uncompensated TOIL balance online, to supplement the existing online facility for checking vacation leave balance. Under this enhanced arrangement, TOIL will be granted unless the accumulated vacation leave balance of the staff concerned has reached 90% of their permitted vacation leave accumulation ceiling.

15. As a result of the afore-mentioned measures, the total uncompensated TOIL balance in HKP was reduced to about 207 200 hours as at 30 November 2015, representing a reduction of 41% compared to the balance at 31 March 2012 or 21% compared to the balance at 31 March 2014. As of the same date, the uncompensated TOIL balance of all staff in HKP was below the service-wide accumulation ceiling of 180 hours and 80% of the HKP staff with an accumulated TOIL balance had a balance less than 50 hours. We will continue with this and other parallel effort to maintain the uncompensated TOIL hours in the Department at a reasonable level as far as practicable.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Lorrience Chow', enclosed within a rectangular box.

(Lorrience Chow)
for Postmaster General

c.c. Secretary for the Commerce and Economic Development
Secretary for Financial Services and the Treasury
Director of Audit

Annex D

Hongkong Post's revenue-generation measures and its effort in introducing new services in recent years

The permitted service scope for the Post Office Trading Fund (POTF) is stipulated in Schedule 1 of the resolution setting up the POTF (Cap.430E) (see **Appendix**). Hongkong Post (HKP) seeks to generate revenue by growing its existing services and introducing new services that optimise the use of its extensive postal infrastructure and capitalise on its capabilities in response to evolving market needs. The key revenue-generation measures in recent years are set out in the ensuing paragraphs.

Supporting local businesses

2. Pursuant to its mission of supporting local enterprises, SMEs in particular, in their business development, HKP has all along devoted attention to the provision of service solutions that cater for their business needs. These service solutions could broadly be categorised as follows :

- (a) *Brand building and market visibility* : local and cross-boundary direct mail service¹ and DMDIY.hk², online-selling on ShopThruPost³;
- (b) *Delivery solutions* : a broad range of local and international delivery solutions with diverse service features that cater for different budgets and service needs in terms of delivery mode and delivery standard, posting volume and extent of mail tracking;
- (c) *Customer relationship management* : customised corporate gift and souvenir production making use of the special stamps and Heartwarming Stamps issued by HKP, festive hamper service; and

¹ Local direct mail service is provided under the Hongkong Post Circular Service. To cater for the service needs of local SMEs, the posting threshold was lowered from 2 000 items to 1 000 items in 2015 with a positive market response. In collaboration with China Post, cross-boundary direct mail service covering 11 Mainland cities assists local businesses to reach out to the Mainland market.

² DMDIY.hk is a web-based direct marketing service that enables businesses to plan, create, and arrange production and distribution of direct mail and digital communication on a self-service basis. Direct mail templates for specified trades (e.g. small-scale food and beverage outlets, play groups, cake shops, fashion shops, spectacles shops, etc.) are available on this one-stop online platform for customers to create direct mail with ease.

³ ShopThruPost is an online selling platform supported by an e-payment gateway as well as local and international delivery services provided by HKP. Apart from HKP's own philatelic products (e.g. stamps, postal stationery and philatelic souvenirs), ShopThruPost also hosts products offered by other merchants, including government departments, social enterprises and local young designers, etc.

- (d) *Internal support* : PayThruPost for bill payment, postal and e-remittance services and digital certificate service⁴, etc.

HKP's service provision in support of e-commerce

3. To address diverse shipping needs arising from domestic and cross-border e-commerce, HKP offers a range of delivery solutions, with variations in price, delivery standard, tracking facility and threshold on posting volume. Examples of HKP's service offerings in support of e-commerce include :

Local delivery

- (a) **Smart Post** : Launched in 2013, this service offers a choice between door delivery and post office counter collection, e-notification to both the mailer and the recipient of successful delivery as well as posting facilitation on EC-Ship⁵;
- (b) **post office counter collection of online purchases** : Launched in mid-2014 for the collection of online purchases made on Taobao.com, this service is also available to other online merchants;

International delivery

- (c) **Speedpost**⁶ : HKP's premium global courier service that offers the fastest delivery in HKP's service offerings, with tracking and reasonable all-inclusive prices (i.e. without separate fuel surcharge and remote location supplement, etc.);
- (d) **EMS Cool Box** : an EMS service launched in 2014 in collaboration with Japan Post for the delivery of fresh produce from Japan;

⁴ HKP is a recognised certification authority under the Electronic Transactions Ordinance (Cap. 553). As electronic communication and electronic transactions become more prevalent, wider use of recognised digital certificates will help enhance cyber security by safeguarding confidentiality of electronic communication, identity authentication in electronic communication/transactions and non-repudiation of electronic transactions.

⁵ EC-Ship is an online posting platform provided by HKP to facilitate mailers, in particular, bulk mailers and e-merchants in posting preparation (e.g. printing address labels and posting forms, calculating postage, mail tracking and managing their posting accounts with HKP, etc.). To further facilitate e-merchants, Application Program Interfaces (APIs) have been developed (including posting API, postage API and tracking API) for enhanced customer experience.

⁶ "Speedpost" is the brand name for the Express Mail Service (EMS) offered by HKP. It covers over 200 destinations globally. The delivery standard for major international cities is the next working day after posting. To facilitate posting preparation by mailers, we have launched a dedicated online posting platform, "My Speedpost", for use exclusively by Speedpost account customers.

- (e) **Bulk Air Mail** : the most economical shipping solution for posting of untracked mail up to 2 kg per item in bulk;
 - (f) **iMail** : bulk posting of registered air mail with proof of delivery and partial tracking information for items up to 2 kg each;
 - (g) **e-Express** : a reasonably priced tracked service launched in 2011 for mail up to 2 kg per item to specifically meet the needs of e-merchants. It now covers 12 markets, viz. US, UK, Australia, Canada, Russia (with e-customs facility), New Zealand, France, Germany, Norway, Singapore, South Korea and Vietnam, and will further expand to new destinations;
 - (h) **e-EMS** : a joint service launched with China Post in 2014 to deliver e-commerce items from overseas through Hong Kong to online shoppers in China under a streamlined work flow; and
 - (i) **conveyance of transit mail from Mainland China via HKP** : a service offered to China Post for the conveyance of outbound mail by air, taking advantage of Hong Kong's excellent air links and the expanded cargo handling capacity at the Hong Kong International Airport.
4. Apart from the above-mentioned delivery services, HKP also offers customised shipping solutions to cater for specified service needs of mailers. In drawing up these customised solutions, we seek to achieve cost-effectiveness by streamlining the mail flow through work-sharing with the mailers.

5. In our effort to support the local business sector, HKP reaches out to local chambers of commerce and trade associations to better understand customer needs. HKP also engages the assistance of local trade/industry support organisations (such as the Hong Kong Productivity Council and the Hong Kong Trade Development Council) to help local enterprises grow their business through patronage of HKP's services.

Hongkong Post's philatelic business

6. HKP releases about 10 to 12 issues of special stamps and commemorative stamps a year. To boost the sales of stamps and related products, we devote particular effort to the selection of stamp themes and stamp designs in order to generate more market interest. In this effort, we partner with various government bureaux/departments as well as relevant external organisations for enhanced synergy. In addition, we keep up our effort in the promotion of philately among the young generation through diverse channels. The customised

philatelic souvenir service provided by HKP is favourably received by the market.

Optimise utilisation of postal infrastructure

7. HKP offers advertising service for government bureaux and departments and public organisations on the external walls of post offices, the exterior of some 1 600 second pouch boxes⁷ and digital TVs in selected post offices.

Periodic adjustments of postage rates and postal fees under the Post Office Regulations (Cap. 98A)

8. To maintain HKP's longer-term financial sustainability, we keep postage rates and postal fees under regular review and adjust them from time to time to recover costs.

⁷ These boxes are for temporary storage of mail bags for delivery postmen.

Appendix

The permitted service scope for the Post Office Trading Fund (POTF) is stipulated in Schedule 1 of the resolution setting up the POTF (Cap.430E) as set out below :

1. Receiving, collecting, sending, dispatching and delivering postal articles within the meaning of the Post Office Ordinance (Cap. 98).
2. Providing Speedpost and other courier services.
3. Retailing stamps and postal related products through counter outlets and appointed agents.
4. Philatelic services.
5. Remittance services.
6. Other services prescribed by the Acts of the Universal Postal Union.
7. Any ancillary service incidental or conducive to providing any of the services in items 1, 2, 3, 4, 5 and 6, including the services of business reply, express, insurance, post restante, private post office boxes, redirection and registration.
8. Agency services for Government departments, public bodies and public utilities, which are compatible with postal related services.
9. Letting out of accommodation that is not immediately required to provide postal services if the letting out does not affect the provision of postal services.
10. Providing the services of a certification authority within the meaning of the Electronic Transactions Ordinance (Cap. 553) and services incidental or related to such services.

**Breakdown of Post Office Trading Fund's Operating Revenue
(2010-11 to 2014-15)**

	2010-11		2011-12		2012-13		2013-14		2014-15	
	\$'000	% of total revenue	\$'000	% of total revenue	\$'000	% of total revenue	\$'000	% of total revenue	\$'000	% of total revenue
(a) General mail services										
Regular mail services ¹	2,947,987	62.4%	2,978,868	59.4%	3,028,313	58.5%	3,026,132	57.6%	3,099,507	58.0%
Competitive mail services ²	924,071	19.6%	1,031,189	20.6%	982,582	19%	969,221	18.5%	884,503	16.6%
e-services ³	556,320	11.8%	654,324	13.0%	801,839	15.5%	956,520	18.2%	1,044,402	19.5%
Philately	130,734	2.8%	179,947	3.6%	167,087	3.2%	140,517	2.7%	146,314	2.7%
Sub-total	4,559,112	96.6%	4,844,328	96.6%	4,979,821	96.2%	5,092,390	97.0%	5,174,726	96.8%
(b) Miscellaneous revenue⁴										
Total revenue	4,721,368	100%	5,014,194	100%	5,175,719	100%	5,249,224	100%	5,343,894	100%

¹ Regular mail services include ordinary Local Mail, Air Mail and Surface Mail, Parcels, registered mail and recorded delivery, etc.

² Competitive mail services include Speedpost, Local CourierPost, Hongkong Post Circular Service, e-Post, etc.

³ e-services include services which are typically used for e-commerce transactions, such as Bulk Air Mail, e-Express, iMail, Smart Post and e-EMS.

⁴ Miscellaneous revenue includes revenue from PayThruPost, rental of private post office boxes and bags, redirection service charges, sales of postal stationery, remittance service, etc.

財經事務及庫務局
(庫務科)

香港添馬添美道2號
政府總部24樓



FINANCIAL SERVICES AND THE
TREASURY BUREAU
(The Treasury Branch)

24/F, Central Government Offices,
2 Tim Mei Avenue,
Tamar, Hong Kong

傳真號碼 Fax No. : 2179 5848
電話號碼 Tel. No. : 2810 3729
本函檔號 Our Ref. : TsyB I 331/520-1/1/0
來函檔號 Your Ref. : CB4/PAC/R65

9 December 2015

Mr Anthony Chu
Clerk to the Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 5 of the Director of Audit's Report No. 65
Operation of Hongkong Post

I refer to your letter dated 1 December 2015. Please find below the information requested in your letter –

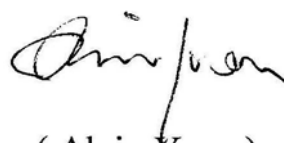
- (a) In setting target rates of return on fixed assets for trading funds, we have engaged consultants through competitive bidding to provide professional advice. We have considered the following factors in setting the target rates–
 - (i) The setting of target rates of return on fixed assets for trading funds is based on the cost of capital of the respective trading fund, which is equal to the weighted average of the cost of debt and the cost of equity of the respective trading fund.

- (ii) The cost of debt is calculated on the basis of a risk-free rate, as trading funds remain part of the Government, and adjusted to allow for the potential tax benefit on interest payments. The risk-free rate is normally represented by the yield of government bonds, which is the rate of return investors will require for investment in the least risky debt instrument in the market. In calculating the cost of debt for trading funds, the risk-free rate is determined with reference to the long-term yield of the Hong Kong Exchange Fund Notes.
- (iii) The cost of equity is calculated by adopting the Capital Asset Pricing Model. It is consisted of the risk-free rate and an equity-risk premium multiplied by an equity beta coefficient. In calculating the cost of equity, the same risk-free rate and equity-risk premium are adopted for all trading funds. The equity-risk premium represents the additional return required over and above the risk-free rate to justify investors' investment in equities and the equity beta coefficient reflects the level of risk faced by the relevant industry based on the Hong Kong data to the extent practicable as well as overseas market data if necessary.
- (b) By adopting the methodology as mentioned in (a) above, the target rates of return on fixed assets were set for various periods for the Post Office Trading Fund (POTF) in the past with reference to the prevailing data at that time. Details are at **Annex A**.
- (c) The value of fixed assets for POTF in calculating the actual rate of return is based on the net book value (cost less accumulated depreciation/ amortisation) of its fixed assets as shown in the audited financial statements of POTF. The fixed assets of POTF include property, plant and equipment, and computer software licences and system development costs. These fixed assets are valued at their historical costs.

***Note by Clerk, PAC:** Please see Appendix 52 of this Report for Annex A.

- _____
- (d) The target and actual rate of return for the other trading funds for the past five financial years from 2010-11 to 2014-15 are at **Annex B**.

Yours sincerely,



(Alvin Yuen)
for Secretary for Financial Services
and the Treasury

c.c. Secretary for Commerce and Economic Development (Fax: 2588 1421)
Postmaster General (Fax: 2868 0046)
Director of Audit (Fax: 2583 9063)

Rate of Return of Other Trading Funds from 2010-11 to 2014-15 ^(note)

Trading Fund	2010-11	2011-12	2012-13	2013-14	2014-15
Companies Registry Trading Fund	59.4% (8.3%)	54.9% (8.3%)	63.6% (6.7%)	72.5% (6.7%)	54.4% (6.7%)
Land Registry Trading Fund	52.6% (8.3%)	19.7% (8.3%)	34.0% (6.9%)	15.8% (6.9%)	7.8% (6.9%)
Office of the Communications Authority Trading Fund	44.7% (8.5%)	48.8% (8.5%)	31.4% (6.7%)	26.0% (6.7%)	24.2% (6.7%)
Electrical and Mechanical Services Trading Fund	58.1% (8.5%)	45.5% (8.5%)	38.1% (7.8%)	31.7% (7.8%)	34.6% (7.8%)

Note: Figures in brackets represent target rates of return.

Annex A

Target rate of return for Post Office Trading Fund

		As from 1995-96	As from 2006-07	As from 2012-13
Cost of Debt				
Risk Free Rate	(a)	6.5%	5.2%	3.42%
Profits Tax Rate	(b)	16.5%	16.5%	16.5%
Cost of Debt	(c) = (a) x (1 - (b))	5.43%	4.34%	2.86%
Cost of Equity				
Risk Free Rate	(a)	6.5%	5.2%	3.42%
Equity Risk Premium	(d)	11.71%	5.0%	5.25%
Equity Beta Coefficient	(e)	0.55	0.63	0.47
Cost of Equity	(f) = (a) + [(d) x (e)]	12.94%	8.4%	5.9%
Weighting of Debt / Equity				
- Debt	(g)	30%	0	0
- Equity	(h)	70%	100%	100%
Target Rate of Return (Note)	(i) = (c) x (g) + (f) x (h)	10.5%*	8.4%	5.9%

* Rounded to nearest 0.5%.

Note:

The target rate of return is calculated as follows –

Weighted Average Cost of Capital

= Gearing ratio x Cost of Debt + (1 – Gearing ratio) x Cost of Equity

whereas

Gearing ratio = Debt / (Debt + Equity)

Cost of Debt = Risk Free Rate x (1 - Profits Tax Rate); and

Cost of Equity = Risk Free Rate + (Equity Risk Premium x
Equity Beta Coefficient)

財經事務及庫務局
(庫務科)

香港添馬添美道2號
政府總部24樓



FINANCIAL SERVICES AND THE
TREASURY BUREAU
(The Treasury Branch)

24/F, Central Government Offices,
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傳真號碼 Fax No. : 2179 5848
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本函檔號 Our Ref. : TsyB I 331/520-1/1/0
來函檔號 Your Ref. : CB4/PAC/R65

4 January 2016

Mr Anthony Chu
Clerk to the Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 5 of the Director of Audit's Report No. 65
Operation of Hongkong Post

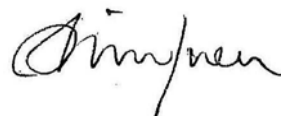
I refer to your letter dated 22 December 2015.

In the last review of the target rate of return on fixed assets for the Post Office Trading Fund ("POTF") in 2011, reference was made to a number of overseas companies or organisations in the post and delivery industry. As mentioned in ~~our letter dated 9 December 2015~~ ^{Appendix 51}, one of the factors in setting the target rates of return on fixed assets for trading funds is the equity beta coefficient which reflects the level of risk faced by the relevant industry. Given that there was no other listed company in the local post and delivery service industry in Hong Kong, our consultant has then made reference to the beta values of the following overseas companies or organisations –

Company / Organisation	Market	Beta Value (as at end of October 2011)
Deutsche Post DPW	Germany	0.74
FedEx	United States	1.17
Freightways	New Zealand	0.52
Pos Malaysia	Malaysia	0.42
PostNL PNL	Netherlands	0.76
Singapore Post	Singapore	0.18
UK Mail UKM	United Kingdom	0.12
UPS	United States	0.40

In line with the methodology of adopting the median of the relevant beta values for calculating the equity beta coefficient for trading funds, the consultant had adopted the estimate of 0.47, i.e. $(0.42+0.52)/2$, for POTF in the last review.

Yours sincerely,



(Alvin Yuen)
for Secretary for Financial Services
and the Treasury

c.c. Secretary for Commerce and Economic Development (Fax: 2588 1421)
Postmaster General (Fax: 2868 0046)
Director of Audit (Fax: 2583 9063)

Annex A(4)

~~CONFIDENTIAL~~M E M O

From Postmaster General Ref. (1) in ADF/ROR/PART IV Tel. No. 2921 2450 Fax. No. Date 20 December 2011	To Secretary for Financial Services and the Treasury (Attn: Mr. Edmond Chu) Your ref. TsyB I 00/665-3/1/0(C) dated Fax. No. Total Pages 5
--	--

Review of Target Rates of Return For Trading Funds

Thank you for your memo on the captioned and please find our comments in the following paragraphs.

2. We have no objection in principle to the consultant's recommendation on continuing the existing methodology of determining the target rate of return for the competitive services of POTF. However, we are of the view that the target rate of return concept should not be applicable to our Universal Services Obligation (USO).

3. Given our obligation to provide universal postal service to the public at affordable pricing, Hongkong Post (HKP) is unable to levy price increase to cope with the general inflation. In setting prices for USO services, HKP has to take into accounts factors apart from cost recovery, such as general economic conditions, public affordability and public sentiments. By reviewing the postage price in other postal administrations, we note that they have implemented price increases in recent years broadly in line with or exceeding the inflation rates. Details are at Annex A. HKP is the only exception since our principle postage of \$1.4 per letter has not been adjusted since 1.4.2002.

4. Concerning the cost aspects, inflexibility in resources management including human resources, procurement of goods and services and choice of business partners have further limited HKP in a great extent its ability to respond to market changes. Facing with the declining traditional mail volume due to weak economic outlook, electronic substitution, consolidation of bills by

large-volume mailers, shifting of customer demand for products such as digital versions of books and music, other postal administrations, including the Australian Post, Canada Post Group, Royal Mail and the United States Postal Services (USPS) have reacted by carrying out redundancy plans, closing down of mail centres, establishment of more flexible workforces, etc in recent and coming years to reduce staff costs.

5. HKP, being bounded by the Civil Service Regulations and related guidelines, is unable to modify the employment terms and conditions of civil service staff. Meanwhile, the flexibility of employing contract staff is constrained by government's prevailing policy. While we have drawn up some aggressive and cost saving measures (details are to be provided in the Business Plan of 2012-13), the fact that around 70% of our staff are civil servants and staff cost accounts for about 77% of the operating costs of Local Mail, all of the aforesaid restrictions make drastic reduction of staff costs extremely difficult. Besides, terminal dues / imbalance charges and conveyance costs also pose serious threats to the financial viability of HKP. All these three cost elements which account for 85% of HKP's total operating costs, are largely beyond HKP's direct control.

6. Our inability to proceed with fundamental cost structure changes and price revisions makes our USO services similar to the nature of a subsidized service. Imposing a target rate of return to subsidized service may not be realistic and appropriate. A research on the position of other postal administrations reveals that there is no such return requirement for the Royal Mail, Canada Post, USPS and Korea Post.

7. By referencing to the treatments of other postal administrations and considering HKP's unique features as explained in the above paragraphs, we have come to the conclusion that any target rate of return on USO services should be dispensed with as it does not provide any meaningful and reasonable measurement on such services.

8. For the competitive services segment, by applying the latest financial data up to the year 2011, the target rate has been updated as 3.9% (as compared to 5.2% in our last submission). We believe that the refined rate of 3.9% for competitive services will serve as a more reasonable target for our competitive service segment. Detailed calculations are at Annex B. We also consider appropriate that the refined target rate of return proposed by POTF for the

competitive services segment to be made effective from 1.4.2011

9. Grateful for your consideration on the refined approach and the proposed implementation time frame. Should you require further information or calculation schedule, please do not hesitate to contact me.

10. Thank you.

A handwritten signature in black ink, consisting of a large loop followed by a series of smaller, connected strokes.

(Stella Au)
for Postmaster General

Annex A

Postal Admin	Postage Price Change (for Domestic Letter)	Average annualized increase	Annualized inflation of the same period
Australia Post (Gov't)	2003 to 2008 Price Freeze, Sep 2008 (from 50c to 55c, 10%), Jun 2010 (from 55c to 60c, 9%)	2.64% (from 2003 to 2010)	2.84% (from 2003 to 2010)
Canada Post Group (Gov't)	Jan 2006 (from 50c to 51c), Jan 2007 (from 51c to 52c), Jan 2009 (from 52c to 54c), Jan 2010 (from 54c to 57c), Jan 2011 (from 57c to 59c) from 2012 to 2014 (+2c per annum)	3.37% (from 2006 to 2011)	1.71% (from 2006 to 2011)
New Zealand Post Group (Gov't)	Year 2007 - Oct 2010: N\$0.5 Oct 2010 - Present: N\$0.6	3.7% (from 2007 to 2011)	1.3% (from 2007 to 2011)
Royal Mail Holding plc (Gov't)	April 2007: 34p April 2008: 36p +5.9% April 2009: 39p +8.3% April 2010: 41p +5.1% April 2011: 46p +12.2%	6.0% (from 2007 to 2011)	2.0% (from 2007 to 2011)
United States Postal Services (USPS) (Gov't)	May 2007: \$0.41 May 2008: \$0.42 +2.4% May 2009: \$0.44 +4.8% Year 2010: N/A +0.0% April 2011: \$0.44 +0.0%	1.4% (from 2007 to 2011)	0.9% (from 2007 to 2011)
Hongkong Post (Trading Fund)	from Apr 2002 to now (\$1.4)	0% (from 2002 to 2011)	1.47% (from 2002 to 2011)

Annex B

Target Rate for Competitive Services	3.9%
Constituent figures	
Risk Free Rate	2.8%
Asset Beta	0.29
Risk Premium (i) - (ii)	3.9%
(i) Return of Utilities Subindex	6.7%
(ii) Yield of 10-year HK Exchange Fund Notes	2.8%

Annex A(1)

James YM
 CHAN/CITB/HKSARG
 09/07/2010 15:00

To Dorothy TY CHUNG/TSYB/HKSARG@TSYB
 cc Agnes SC YEUNG/TSYB/HKSARG@TSYB
 YF Chan/HKPO/HKSARG@HKPO
 Iris SY Wong/HKPO/HKSARG@HKPO
 Maggie KWONG/CITB/HKSARG@CITB
 bcc

Subject ~~CONFIDENTIAL~~: Review of Target Rates of Return

File Ref.

☐ High Importance ☒ Return Receipt

~~CONFIDENTIAL~~

Re the upcoming review on the target rate of return. Having discussed with us, HKP has set out the initial views at the paper attached. We should be grateful if you could take them into account in taking forward the exercise. We and HKP would be happy to discuss with you after you have taken a look at them.


 Paper to CEDB.18.6.2010.doc

   
 Annex 1-14.5.2010.doc Annex 2 (14.5.2010).xls Annex 3 (8.6.10).xls Annex 4 (8.6.10).xls

Thanks.

~~CONFIDENTIAL~~

Review on the Target Rate of Return on Average Net Fixed Assets of the Post Office Trading Fund

This paper proposes to revise the existing methodology on determining the target rate of return on average net fixed assets (ANFA) for the Post Office Trading Fund (POTF) with effect from 1 April 2011.

I. Background

2. Under S6 of the Trading Fund Ordinance (Cap. 430), Trading Funds are required to achieve a reasonable return, as determined by the Financial Secretary, on the fixed assets employed. The approach in deriving the rate of return is based on the Capital Asset Pricing Model (CAPM). The CAPM is used to determine a theoretically reasonable rate of return of an investment asset. This model takes into account the investment asset's sensitivity to non-diversifiable risk¹ which is often represented by the quantity beta (β) in the financial industry, the expected return of the market and the expected return of a theoretical risk-free asset. The CAPM for deriving the rate of return on ANFA is illustrated below:

$$\text{CAPM} = \text{Risk-free rate} + \text{Equity risk premium} \times \text{Asset beta}$$

3. Based on the premise that investors as a whole are risk averse and would require an additional return over the risk-free rate² that can commensurate the risks they take in committing their funds to a specific business venture, this additional return is represented by risk premium, which is equity risk premium multiplied by the asset beta. Equity risk premium is the extra return required by investors to justify committing their investment in equities. Asset beta measures the volatility of the investment compared with the market. The higher the asset beta, the more volatile the market price of the investment relative to the market.

¹ Non-diversifiable risk is the risk of an investment asset that cannot be reduced or eliminated by adding that asset to a diversified investment portfolio. For example, during inflation, all companies experience an increase in cost of inputs, and in general, their profitability will suffer if they cannot fully transfer the increase in cost on to their customers.

² The risk-free rate is the return on an investment that is substantially no risk. For example, investment in US Treasury Notes and Hong Kong Exchange Fund Notes.

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4. The target rate of return on ANFA is derived to justify the rate of return for Government investment in POTF vis-à-vis other vehicles, such as US Treasury Notes. In gist, the target rate is:

- (i) the rate of return for investing in instruments that incurs the lowest possible level of risk (i.e. the risk-free rate) plus
- (ii) the risk premium for justifying the Government to take the incremental risk in investing in POTF relative to investing in risk-free capital (i.e. the risk premium equal to the equity risk premium multiplied by the asset beta).

Derived from the review conducted by FSTB in 2006³, the values for (i) and (ii) are 5.2% and 3.2% respectively, thus making up the target rate of ANFA for HKPO to be 8.4%. The basis used in deriving the current 8.4% return on ANFA based on CAPM is at **Annex 1**.

5. The CAPM is a model which is widely used in the business sector and the Government to calculate the target rates of return by drawing reference from financial statements and market data that are readily available. These rates are set for the purpose of recouping investment in the services, and providing a benchmark for evaluating the overall financial performance of the entities, as well as a hurdle rate for appraising new investments.

6. The target rate of return on ANFA is reviewed by FSTB every 5 years. The last review in 2006 set the target rate of return for POTF at 8.4% for five years up to 31 March 2011. The next review is due in 2010.

II. The Shortcomings of the Current Methodology

³ The aim of 2006 Review is to determine the target rates of return applicable to the government utilities and trading funds.

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7. We consider that the current methodology in determining ANFA has certain shortcomings, which do not accurately and fairly reflect the situation of POTF. The shortcomings are as follows:-

(i) *Component of the equity risk premium*

- The existing risk premium is benchmarked to Hang Seng Index Total Return. However, the Hang Seng Index is far more volatile than POTF's business. As seen from the recent financial tsunami, the Hang Seng Index plunged by 46% year on year in December 2008 and rallied 57% year on year in December 2009 while POTF's Speedpost traffic moves by -6.1% and +8.8% over the same period. Therefore, it is necessary to select an alternative proxy index that better represents POTF's business.

(ii) *The asset beta (β)*

- The existing asset beta is based on the respective values of the utilities and the delivery sectors in the ratio of 3:2⁴. The delivery sector has made specific reference to six comparable businesses⁵ around the world. Most of these entities are international courier service operators whose major revenue is generated from express delivery services. In contrast, such services (i.e. Speedpost and Local CourierPost services for POTF) only accounts for 15.5% of POTF's total revenue.

(iii) *POTF's Social Obligation*

- The current methodology does not take into account the fact that the POTF has a social obligation to "*meet Hong Kong's postal needs and fulfill Hong Kong's international postal obligations by providing reliable, efficient and universal postal services at*

⁴ As stated in para. 83 of the 2006 Consultancy Report on the Review of Target Rates of Return, "given the Post Office operates more within the traditional range of postal delivery services than the listed delivery companies, and is less subject to market competition than its counterparts operating globally, we consider the beta value of the Post Office should be lower than the industry norm and can be approximated at 0.63, the 3:2 weighted average for the utilities and delivery services sectors".

⁵ These include (i) Deutsche Post DHL; (ii) UPS; (iii) FedEx; (iv) TNT; (v) Singapore Post and (vi) UK Mail Group (formerly known as Business Post Group).

~~CONFIDENTIAL~~

reasonable and affordable prices."⁶

- POTF's core mail services include the receiving, collecting, sending, dispatching and delivering postal articles within the meaning of the Post Office Ordinance (Cap. 98) and any ancillary service incidental or conducive to providing any of such services as well as other services prescribed by the Acts of the Universal Postal Union. These services fall under the ambit of the universal service obligations (USO) which bear multiple characteristics: universal geographical coverage, whole range of postal products, universal access to services and facilities by the general public, affordable pricing, high service quality and security of mail.
- The local mail service can be used to illustrate how the provision of USO differs from commercial operations. While the commercial carriers cherry-pick the delivery of mail to the central business districts or densely populated areas to safeguard profit margin, POTF honours the obligation to deliver to every Hong Kong address at the same affordable price, with the same delivery frequency and security level.
- The provision of USO can also be exemplified in the peak traffic months of 2009 where the demand for air conveyance had far exceeded the supply. Neither could POTF turn away the public from our postal service nor could we raise the charges on air mail (both were practiced by the commercial couriers). As a result, in some cases, what the customers paid were not sufficient to cover the conveyance charges alone.

III. Proposed Changes

8. We propose the following modifications to the target rate of return:

- (i) The target rate of return determined by the CAPM

⁶ Para. 2 of the Framework Agreement of Post Office Trading Fund (1 August 1995)

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- should apply to the competitive services⁷ only, with the components revised;
- (ii) The target rate of return for USO services should be the risk-free rate while the target rate for competitive services is subject to the CAPM with the components revised;
 - (iii) Adopt the less volatile index for equity risk premium — replacing the Hang Seng Index Total Return with the Hang Seng Utilities Sub-index Total Return;
 - (iv) The asset beta (β) should benchmark with the asset beta of the utilities companies only and exclude the asset beta for the courier services.

The USO and competitive services provided by POTF are set out in **Annex 2**. The revenue contributions by the 2 types of services are 75% and 25% respectively, while the sharing of the expenditure are 77% and 23% respectively. It is recommended to split the ANFA base of POTF between USO and competitive services based on the expenditure relating to the relevant services.

IV. Justifications

(i) The target rate of return determined by the CAPM should apply to the competitive services only with components revised

9. POTF is the only trading fund that is required to provide USO. As explained above, POTF has to perform USO despite suffering losses in discharging the obligations. However, the existing model has not taken this element into account. Some of the postal administrations, like US Postal Services and China Post are subsidized by public funds for the provision of USO. As a trading fund, we understand that we have a statutory obligation to meet a financial return. Therefore, we propose to differentiate USO from competitive services. By so doing, a lower target rate will be set for POTF's USO in view that it is a form of

⁷ Competitive services are services provided by POTF other than the USO. They include Speedpost, local courier services, philatelic services etc.

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public service; while the latter aims to preserve the advantage of a trading fund to engage in product development and innovation to meet market demands for competitive services

(ii) *The target rate of return for USO services should be the risk-free rate while the target rate for competitive services is subject to the CAPM with the components revised*

10. As set out in paragraph 9, services under the ambit of USO are meant to serve the mass public and thus should deserve a waiver from generating a higher return. We therefore propose that the target rate of return for USO to be benchmarked with the yield of the 10 year Hong Kong Exchange Fund Notes, which is at a risk-free rate, and can be regarded as the appropriate baseline of government investing in the POTF. As for competitive services, the CAPM is used to set the target rate of return. However, we consider that some improvements are needed, as specified in paragraphs 11 and 12.

(iii) *Adopt the less volatile index for equity risk premium — replacing the Hang Seng Index Total Return with the Hang Seng Utilities Sub-index Total Return*

11. When determining the equity risk premium, we propose to replace the Hang Seng Index Total Return by the Hang Seng Utilities Sub-index Total Return since the business mode and market risk of POTF is more akin to the public utilities. During the recent financial tsunami, while the Hang Seng Index can be extremely volatile⁸, the Hang Seng Utilities Sub-index is comparatively stable⁹. The latter is more in line with the movement of our business¹⁰. The magnitude of difference in the equity risk premium by using the two different indexes is shown in Annex 4A.

(iv) *The asset beta (β) should benchmark with the asset beta of the utilities companies only and exclude the asset beta for the courier services.*

⁸ The year on year changes in December 2008 and December 2009 are -46% and +57% respectively.

⁹ The year on year changes in December 2008 and December 2009 are -15% and +15% respectively.

¹⁰ The year on year changes in December 2008 and December 2009 are -6.1% and +8.8% respectively.

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12. For the asset beta (β), we propose that the basket of reference entities should exclude those primarily engaged in premium international courier services. It is because premium courier services only accounts for 15.5% of our total revenue. Also, the market risk of POTF is much lower than the private courier companies as POTF has a relatively stable revenue base from the core postal services. We therefore recommend that the asset beta should make reference to that of the utilities companies only.

13. To illustrate the effect of the revised methodology set out in paragraph 8, the target rates of returns using the old and new methodology are set out in **Annex 3** and **Annex 4**. The target rate of return using the existing methodology (at 10.9%) with updated market data (**Annex 3**), while the new target rate of return on ANFA for USO and competitive services will be 3.4% and 5.2% respectively (**Annex 4**).

V. Recommendation

14. We therefore recommend the proposed changes of methodology set out in paragraph 8 above which more appropriately reflects the modus operandi and risk exposure of POTF.

**Commerce and Economic Development Bureau
Hongkong Post**

June 2010

Methodology of Setting the Existing Target Rate of Return - Capital Asset Pricing Model

$$\begin{aligned} &\text{Risk-free Rate} + \text{Equity Risk Premium} \times \text{Asset Beta} \\ &= 5.2\% + 5\% \times 0.63 \\ &= 8.4\% \end{aligned}$$

Risk-free Rate (5.2%)

The average of (i) short-term yield of 10-year Exchange Fund Notes (EFN) during the three months of Oct – Dec 2005 and (ii) long-term yield of 10-year EFN of during the 9 years of 1997 – 2005.

Equity Risk Premium (5%)

It is the additional return required by investors over and above the risk free rate to justify committing their investment in equities. It can be estimated from suitable long-term market return data. It equals to the difference of 10-year average return of Hang Seng Index (11.2%) and HKEFN (6.2%)

Asset Beta (0.63)

It measures the volatility, and therefore the risk, of the investment compared with a fully diversified portfolio. It can be observed through the stock price movement of the investment. For POTF, it is benchmarked on 3:2 of the respective beta values for (i) the utilities sector (0.56) and (ii) the delivery sectors, including Deutsche Post, DHL, UPS, FedEx, TNT, Singapore Post and UK Mail Group (formerly known as Business Post Group) (0.74).

Classification of USO and competitive services

(I) List of USO Services

- (A) Local Mail
 - Letter / Packet
 - Parcel

- (B) International Mail
 - Letter / Packet
 - Parcel
 - Bulk Mail / Bag
 - Transit Mail

- (C) Ancillary services incidental or conducive to providing any of the services in (A) & (B) above, including business reply, express, insurance PO Box, redirection and registration.

(II) List of Competitive Services

- (A) Local Mail
 - Hongkong Post Circular Service
 - e-Post
 - Local CourierPost

- (B) International Mail
 - Speedpost
 - International Periodical
 - Transhipment

- (C) Philately

- (D) Retail & Logistics

Target Rate of Return Based on the existing methodology

	%		Reference
Risk-free Rate	3.39	Average of (i) yield of 10-year HKEFN for the past 9 years & (ii) yield of 10-year HKEFN for the past 3 months (up to April 2010)	
Equity Risk Premium	16.72	Difference of (i) Hang Seng Index Total Return & (ii) yield of 10-year HKEFN for the past 5 years	Annex 3A
Asset Beta	0.45	Based on 3:2 weighted average for the utilities and delivery services sectors	Annex 3B

$$\begin{aligned}\text{Target Rate of Return} &= \text{Risk-free Rate} + \text{Equity Risk Premium} \times \text{Asset Beta} \\ &= \underline{\underline{10.9\%}}\end{aligned}$$

Note: Due to limited market information, equity risk premium is calculated based on the HSI Total Return for the past five years

Calculation of Equity Risk Premium

	<u>Hang Seng Index</u>	<u>Total Return</u>
	Value	YOY change
Dec-04	24,470	
Dec-05	26,528	8.41%
Dec-06	36,868	38.98%
Dec-07	52,858	43.37%
Dec-08	28,332	-46.40%
Dec-09	44,382	56.65%

Average Return on Index [a] 20.20%

Average yield of 10-year HKEFN [b] 3.48%

Equity Risk Premium [a] - [b] 16.72%

Source: Bloomberg

Asset Beta

Utilities sector

	Market Beta ⁽¹⁾	Gearing ratio ⁽¹⁾	Projected Asset Beta ⁽²⁾
CLP Holdings	0.02	0.47	0.20
HK & China Gas	0.53	0.36	0.47
HK Electric	0.03	0.19	0.30
			0.96
		Average	0.32

Courier sector

	Market Beta ⁽¹⁾	Gearing ratio ⁽¹⁾	Projected Asset Beta ⁽²⁾
Deutsche Post	1.10	0.47	0.65
UPS	0.79	-	0.86
FedEx	1.14	0.12	1.00
TNT	1.03	0.46	0.66
Singapore Post	0.47	0.52	0.34
UK Mail Group (formerly Business Post Group)	0.03	0.13	0.32
			3.84
		Average	0.64

Based on 3:2 weighted average for the utilities and courier sectors, the asset beta is **0.45**.

Notes

(1) Source: www.ft.com/marketsdata/

(2) Projected Asset Beta = $[\text{Market beta} + (1 - \text{Market beta})/3] \times (1 - \text{Gearing}) / (1 - \text{Gearing} \times \text{tax rate})$

Target Rate of Return Based on the proposed methodology

(I) USO services

Per Risk-free Rate: 3.4%

(II) Competitive services - based on CAPM

	%		Reference
Risk-free Rate	3.39	Average of (i) yield of 10-year HKEFN for the past 9 years & (ii) yield of 10-year HKEFN for the past 3 months (up to April 2010)	
Equity Risk Premium	5.53	Difference of (i) Hang Seng Utilities Sub-index Total Return & (ii) yield of 10-year HKEFN for the past 5 years	Annex 4A
Asset Beta	0.32	Asset beta for utilities sector only	Annex 4B

$$\begin{aligned}\text{Target Rate of Return} &= \text{Risk Free Rate} + \text{Equity Risk Premium} \times \text{Asset Beta} \\ &= \underline{\underline{5.2\%}}\end{aligned}$$

Note: Due to limited market information, equity risk premium is calculated based on the HSI Utilities Sub-index for the past five years

Calculation of Equity Risk Premium

	Hang Seng Index Total Return Value YOY change	Hang Seng Utilities Sub-Index Total Return Value YOY change
Dec-04	24,470	59,202
Dec-05	26,528 8.41%	63,905 7.94%
Dec-06	36,868 38.98%	74,988 17.34%
Dec-07	52,858 43.37%	89,244 19.01%
Dec-08	28,332 -46.40%	76,105 -14.72%
Dec-09	44,382 56.65%	87,896 15.49%

Average Return on Index [a]	20.20%	9.01%
Average yield of 10-year HKEFN [b]	3.48%	3.48%
Equity Risk Premium [a] - [b]	16.72%	5.53%

Source: Bloomberg

Asset Beta

Utilities sector

	Market Beta ⁽¹⁾	Gearing ratio ⁽¹⁾	Projected Asset Beta ⁽²⁾
CLP Holdings	0.02	0.47	0.20
HK & China Gas	0.53	0.36	0.47
HK Electric	0.03	0.19	0.30
			0.96
		Average	0.32

Notes

(1) Source: www.ft.com/marketsdata/

(2) Projected Asset Beta = $[\text{Market beta} + (1 - \text{Market beta})/3] \times (1 - \text{Gearing}) / (1 - \text{Gearing} \times \text{tax rate})$

5 January 2016

Mr Anthony Chu
Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 5 of the Director of Audit's Report No. 65
Operation of the Hongkong Post

Thank you for your letter of 22 December 2015. The requested information under items (e) to (g), (i) to (l), (o) to (s), (u) and (x) is set out in the ensuing paragraphs.

Management of mail processing

On item (e)

2. To protect its revenue, Hongkong Post (HKP) takes action to tackle underpayment of postage with due consideration of the risk of revenue loss as well as the practicability and administrative costs involved. In the light of the recommendations in the Director of Audit's Report No. 65, we have conducted a review of the prevailing mechanism and procedures for the detection and subsequent processing of underpaid mail items. In addition, we have stepped up publicity and public education on the responsibility of mailers to pay sufficient postage.

3. At present, HKP processes about 3 million locally posted mail items a day. About 88% are accepted over post office counters with postage paid by permit/meter/postage labels. These mail items are checked by HKP staff at the time of mail acceptance and hence the risk of underpayment of postage is very low. The remaining 12%, which are paid by postage stamps and accepted through street posting boxes and posting slots in post offices, carry a higher risk

of underpayment. Striking a balance between revenue protection and administrative cost-effectiveness, we adopt a risk management approach in the detection of underpaid items, targeting mail items received through street posting boxes and posting slots in post offices and, in particular, large letters and packets which are more susceptible to underpayment of postage and the amount of underpaid postage for which tend to be higher.

4. First of all, we have stepped up staff awareness of the need to protect HKP's revenue and the responsibility of all staff handling mail to assist in this task. To enhance staff vigilance in the detection of underpaid items, we have improved the operational guidelines to incorporate detailed work steps and delineation of responsibilities for detecting underpaid items, whether these mail items are processed by machine or manually. Notices carrying the key operational steps and essential points-to-note are displayed prominently at relevant work units throughout the mail flow from mail acceptance to mail processing and delivery. In addition, supervisors conduct regular briefings for frontline staff to ensure compliance of the stipulated requirements.

5. To help ensure effective detection of underpaid items by frontline staff, we have increased the minimum quantity, by mail category, to be checked by supervisors at different stages of mail processing taking into account their respective risk levels, and promulgated the requirement for strict compliance by the staff concerned. All underpaid items are recorded and accounted for, including when they are passed from the Central Mail Centre (CMC) to delivery offices, to facilitate monitoring of follow-up actions (such as settlement of surcharges). In addition, starting from December 2015, test mail items with insufficient postage are sent regularly as a control measure to ascertain the effectiveness of HKP's detection mechanism. Managers in operational units and the Postal Services Branch (PSB) Headquarters are responsible for overseeing the effective implementation of the improved operational procedures.

6. To enhance operational efficiency, mail items identified to carry insufficient postage are centrally processed at the CMC, which also maintains statistics on such items to facilitate monitoring of any underpayment trends. To further streamline the operational procedures for processing underpaid mail items and surcharge collection, we are enhancing the Integrated Postal Services System (IPSS) to automate the calculation of surcharge, the issue of dues labels in replacement of dues stamps and recording of the surcharge amount to be collected by item. This will be rolled out in phases from January 2016 for full implementation by end March 2016. This new arrangement will enhance management control over surcharged items as the surcharge amount and the amount collected will be captured electronically item by item.

7. Hitherto, surcharge for underpaid items is collected at the time of mail delivery. This is labour-intensive and time-consuming. We will cease this

practice. Instead, recipients will be asked to pay the surcharge and collect the mail item at the designated post office starting from April 2016.

8. We have stepped up publicity and public education on the responsibility of mailers to pay sufficient postage. We will also continue to remind the public that underpaid mail items are subject to surcharge and delivery delay. The publicity channels employed include : posting publicity messages on the HKP website and the HKP mobile app; postal slogan printed on mail items which require stamp cancellation; publicity message printed on invoices for issue to HKP's account customers; announcements made on HKP's general enquiry hotline and digital displays in selected post offices; notices/posters displayed on street posting boxes and second pouch boxes; posters displayed at post offices, District Offices and the lift lobby of selected public housing blocks; and Announcement in the Public Interest (API) on radio.

9. We will continue to closely monitor the trend of underpayment of postage and will consider the need for introducing more stringent measures (e.g. increasing the surcharge for underpaid items) to deter underpayment if warranted.

On item (f)

10. According to the terms of HKP's 2014-15 tender exercise for airfreight services, if a tenderer failed the financial vetting and the estimated value of the contract was over \$5 million, HKP might require the selected tenderer to submit a deposit equivalent to 0.5% of the estimated contract value. When seeking the Central Tender Board's approval of the award of contracts, HKP informed the Board that the tenderers had been financially vetted and were considered financially capable of undertaking the contracts, and as they had passed the financial assessment, no contract deposit was required.

11. In the afore-mentioned tender exercise, HKP had conducted financial vetting for those tenderers whose estimated contract values exceeded \$5 million. Although some tenderers failed the financial vetting, HKP did not present the full details of the financial vetting results to the Central Tender Board, nor the reasons for regarding the recommended tenderers for contract award as having passed the financial assessment and the reasons for waiving the contract deposit. This was due to oversight in preparing the submission to the Central Tender Board. We accept the recommendation of the Director of Audit that we should provide accurate and comprehensive information to the Central Tender Board on the results of HKP's financial vetting and the justifications for waiving the contract deposits.

12. Notwithstanding the waiver of the payment of a contract deposit, there is no adverse impact on HKP's interests as explained below :

- (a) *Stringent regulatory regime for airline operators operating from Hong Kong* - Regulation 6 of the Air Transport (Licensing of Air Services) Regulations (Cap. 448A) requires a local airline operator to submit annually the audited financial statements as well as key prescribed information for financial vetting. For non-Hongkong airline operators, the Civil Aviation Department requires the airlines to submit their Air Operator's Certificates (AOC). According to the "Air Operator Certification and Surveillance Handbook" published by the International Civil Aviation Organization, before issuing an AOC, the relevant regulatory authority will consider the financial viability of the operation as well as the economic and financial assessment on the applicant and the regulatory authority will make continuous re-evaluation of the financial viability of the airline operator during the validity period of the AOC;
- (b) *Low financial risk to Government* – The airfreight services contracts operate under a Standing Offer Agreement mechanism. Service provision by a successful tenderer under contract is pursuant to a specific request from HKP from time to time during the contract period. Flights are ranked for each destination having regard to price and other applicable criteria. HKP makes no commitment or warranty to any contractor regardless of its ranking as to the exact quantity of mail for its dispatch. When the volume committed by a contractor cannot be provided due to whatever reasons, HKP will turn to other contractors on the ranking list immediately;
- (c) *Market and international practice* – It is market practice that airlines may require their customers to pay them a deposit for a guaranteed supply of air conveyance capacity. The contract deposit arrangement as stipulated in HKP's tender document (i.e. the successful tenderers are required to pay a contract deposit to HKP under specified circumstances) is contrary to market practice; and
- (d) *Interests of Government* – Under the prevailing arrangement, there is reasonable assurance that HKP's air conveyance requirements will be met due to the relatively large pool of service providers and the established mechanism under contract for HKP to seek compensation from the contractors concerned in the event of defaults in their performance under the contracts with HKP. On the other hand, there is a risk that HKP's interests would be jeopardised (e.g. the contractors may decline the contract offers) if we insisted on the payment of a contract deposit by the contractors.

13. In the 2016-17 tender exercise for airfreight services, we informed the Central Tender Board of the details of the financial vetting results and explained clearly the justifications for HKP's decision of not requiring the successful tenderers to furnish a contract deposit. The Central Tender Board approved the

results of the 2016-17 tender exercise and offered no further comments in this respect. Pursuant to the recommendation of the Director of Audit, we will review the practice of waiving contract deposits from contractors of airfreight services who failed the financial vetting and whose estimated contract value exceeded \$5 million.

On item (g)

14. Paragraphs 2.44 to 2.46 in Chapter 5 of the Director of Audit's Report No. 65, supplemented by paragraphs 11-13 and Annex H1-2 of ~~our reply to the Public Accounts Committee dated 17 December 2015~~ ^{Appendix 45}, explain how a delivery beat is created based on an assessed standard workload that is close to, or equal to, 420 minutes (i.e. the normal daily working hours of a delivery postman minus a one-hour meal break) and how the daily workload of a delivery postman (including the permitted amount of overtime work) is assessed based on the actual mail volume.

15. We wish to point out that approval is granted for a delivery beat to undertake overtime work only if it is unavoidable (e.g. the mail must be delivered on that day in order to meet HKP's performance pledges, the workload cannot be shared by other staff in the delivery office, etc.). Moreover, Postal Inspectors in the delivery offices are required to make adjustments to the daily workload assessment of individual delivery beats based on their local knowledge and other relevant factors rather than mechanically meting out overtime work based on the computed workload calculated by reference to the standard time for the preparation/delivery of different mail types.

16. Paragraph 14 in ~~our reply to the Public Accounts Committee dated 17 December 2015~~ ^{Appendix 45} explains that further to the daily workload assessment for individual delivery beats, there are additional steps to ascertain if adjustments to the standard workload are warranted through the following monitoring measures :

- (a) Postal Inspectors in delivery offices are required to monitor the time of return of delivery postmen to their respective delivery offices upon completion of their delivery duties for an assessment on whether the resource allocation is aligned with the actual workload. If a postman returns to the delivery office earlier than the time indicated under the daily workload assessment, the overtime hours already granted may be forfeited subject to a review by the delivery office concerned. Conversely, if a delivery postman takes longer than the required duration assessed by his Postal Inspector to complete his daily delivery duties, he will not be granted overtime hours automatically. In addition, Superintendents of Posts of delivery offices carry out checks on the pouch-out time (i.e. the time at which a delivery postman departs from the delivery office to commence the outdoor delivery duty) and the pouch-in time (i.e. the time at which a delivery postman returns to the delivery office after completing the outdoor

delivery duty) to ensure that no excessive overtime is granted to individual beats. If a delivery postman persistently returns early, the respective Superintendents of Posts will review the standard workload of the delivery postman and seek endorsement from the Division Head for minor patching of the beat if the situation warrants;

- (b) Postal Inspectors are required to conduct regular beat patrols at selected delivery points and the last stop of each permanent and temporary delivery beat (including motorised beats and bicycle beats) at specified intervals (i.e. each beat should be inspected not less than six times a year, at least one of which must include a last call-point check) without prior announcement to the delivery postman concerned. Superior spot checks of delivery beats are also conducted by the supervisors of the Postal Inspectors (for at least one Postal Inspector every fortnight) and the area Managers (for at least one Postal Inspector every month). If notable deviations and/or irregularities are observed during these inspections, they will be brought to the attention of the Mail Delivery Division Headquarters for necessary follow-up; and
- (c) The Beat Survey Team in the PSB Headquarters conducts independent supervisory checks and reports any irregularities observed to the Mail Delivery Division Headquarters and the PSB Headquarters for follow-up actions (e.g. minor patching of the delivery beats concerned). The frequency of these supervisory checks was increased from four times a month to six times a month from November 2015 and will be further increased to eight times a month in April 2016.

17. To enhance control over the outdoor duty of delivery postmen, we will examine the merits and feasibility of incorporating a global positioning system (GPS) or tour monitoring system in the new personal digital assistants to be procured under the planned replacement programme (please refer to the response to item (k)).

On item (i)

18. In 1999, HKP embarked on an exercise to formulate a new methodology for measuring the workload of individual delivery beats by reference to a set of standard time for mail preparation and delivery for different types of delivery beats. The new methodology was implemented from 2001. In 2001 to 2005, the Vertical Postmen Preparation Fitting (VPPF) was introduced to all delivery offices in phases. Due to the changes in postal operations and tools, HKP conducted another review in 2006 to 2008 on the standard time for workload assessment for delivery postmen. The updated standard time was adopted in 2008.

19. The determination of the standard time for the processing and delivery of different mail types in the two afore-mentioned exercises was carried out in-house. To enhance objectivity and reliability in assessing the work performance of delivery postmen for the purpose of defining such standard time, HKP sought professional advice from the Department of Industrial and Systems Engineering of the Hong Kong Polytechnics University on proven industrial engineering methodologies relevant to the exercise (i.e. time study methodology and performance rating assessment) and engaged its assistance in organising training for HKP staff who were/are involved in tasks related to workload assessment, e.g. beat surveys, productivity and performance measurement, etc. The content of the first training course provided by the Hong Kong Polytechnics University to HKP staff in 1999 is at **Annex A**.

On item (j)

20. Under the current methodology for workload assessment for delivery postmen, standard time has been defined for the processing of different types of mail (including “letters/flats”, “packets”, “registered mails” and “Speedpost”) under eight categories of delivery beats¹. To provide an updated basis for workload assessment for delivery postmen, we will embark on a comprehensive review in 2016. The review will examine if any adjustments are required for (i) the designation of eight categories of delivery beats and (ii) the standard time for the processing and delivery of different types of mail items for different categories of delivery beats taking into account relevant factors such as changes to postal operations since the last review conducted in 2006 to 2008, changes in the mail mix in recent years, changes in the age profile of delivery postmen, the learning effect as a result of accumulation of experience with a delivery beat, etc.

21. In the upcoming review, we will select around 150 delivery beats that are representative of different delivery modes for a close study of their actual operations, covering the three key components underpinning the assessment of the standard workload of a delivery beat, namely :

- (a) *indoor preparation processes*, viz. 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*, viz. the time required to reach the first delivery point from the delivery office and the time required for returning to the delivery office from the last delivery point; and

¹ These eight categories of delivery beats are: residential nest letter boxes, residential door-to-door delivery, rural, commercial door-to-door delivery, residential nest letter boxes/irregular door-to-door delivery, commercial door-to-door delivery/residential nest letter boxes, residential/commercial 50% mix and Islands.

***Note by Clerk, PAC:** Please see Appendix 59 of this Report for Annex A.

- (c) *outdoor delivery time*, viz. the time required to travel from one delivery point to another along the delivery beat and deliver the mail items.

22. Allowing time for drawing up the detailed review methodology, selection of representative delivery beats for survey, field work, data analysis and staff communication, we tentatively target to complete the review in the first half of 2017. The new standard time for the processing and delivery of different mail types for application to different categories) of delivery beats will thereafter be applied for assessing the standard workload of each delivery beat in beat revision exercises.

23. Regular beat revisions are carried out for each delivery beat for the following objectives :

- (a) re-assessing the standard workload of the beat;
- (b) evening out the workload of the delivery beat;
- (c) maintaining a delivery boundary which will improve delivery and sorting efficiency; and
- (d) aligning staff resources used in mail delivery with the updated mail traffic.

24. According to the prevailing departmental guideline, a beat revision exercise should be carried out for each delivery office every three years. However, due to operational needs, the Beat Survey Team was deployed to conduct unscheduled workload assessment for the three Speedpost Centres and the three Speedpost hubs in 2012-14 due to the envisaged efficiency gain. Moreover, the Beat Survey Team carried three vacancies out of a total establishment of ten Postal Inspectors during the period from March 2013 to June 2014. As a result, there has been a slippage in the conduct of the beat revision exercises for the delivery offices. To catch up with the prescribed review schedule, HKP is taking steps to augment the Best Survey Team and aim to complete all outstanding beat revision exercises by end 2017.

On item (k)

25. All delivery postmen in Mail Delivery Division are equipped with Portable Digital Assistant (PDA) for instant recording of the delivery status of mail items supported by mail tracking (e.g. registered mail, recorded delivery, Parcel, Local CourierPost, Speedpost, etc.). The recorded delivery status is uploaded to our Track and Trace System for customers to check updated mail delivery information conveniently. These PDAs are due for replacement when they reach the end of their serviceable life in 2017. In preparation, we will embark on a review of our functional requirements in early 2016. Under this review, we will examine the merits and feasibility of incorporating additional

functions into the device so as to enhance performance management and service quality. These additional functions include global positioning and/or tour monitoring system (for enhancing control of outdoor duties) and photo-taking (for reporting irregularities such as damaged/insecure letterboxes of households). Allowing time for the above-mentioned review, procurement as well as system design and development, we aim to implement the replacement programme in phases from the third quarter of 2017 to the first quarter of 2018.

On item (l)

26. Overtime work may be undertaken only when it is unavoidable. The Air Mail Centre (AMC) is responsible for processing outbound and inbound mail to and from international destinations year-round. As the arrivals and departures of the flights engaged for conveying HKP's international mail are spread throughout the day and in order to meet HKP's performance pledges for processing international mail, the AMC operates round-the-clock.

27. While we have tried to organise our workforce at the AMC to match operational needs as far as practicable, overtime work is inevitable due to the unpredictable nature of postal traffic. Other circumstances which further add to the need for overtime work at the AMC include :

- (a) vacancies, for both civil service posts and non-civil service contract (NCSC) positions, pending the completion of recruitment and promotion exercises as applicable; and
- (b) temporary staff absence due to, for example, vacation leave, sick leave, clearance of time-off in lieu, training, etc.

28. We have implemented the following measures to ease the situation :

- (a) We have re-engineered the work processes at the AMC to reduce manual effort, e.g. scaling down the operations on Sundays and public holidays;
- (b) We have transferred/will transfer some of the operations to alternative locations in town where manpower shortage is less acute than at Chek Lap Kok:

Date	Relocation of work processes from the AMC
September 2013	Relocated part of the aviation security screening process from the AMC to the CMC
February 2014	Relocated part of the aviation security screening process and some of the mail sortation work from the AMC to the Bulk Air Mail Centre in Tsuen Wan

Date	Relocation of work processes from the AMC
May 2014	Relocated the Inward Registered Section from the AMC to the CMC
Mid-2016	Relocating the Air Registration Section from the AMC to the General Post Office (GPO) Building

The relocation of these operating units from the AMC also helps to ease the space constraint at the AMC, thus helping to improve operational efficiency;

- (c) We have rescheduled the duty hours of the staff at the AMC so that the operating hours of the AMC can be covered by the regular workforce as far as operationally practicable. We have also redeployed some NCSC staff from other operational units of the International Mail Division to the AMC to reinforce the workforce there. Since September 2014, we have been training up a wider pool of staff to share out the overtime work at the AMC. In addition, starting from August 2015, we deploy leave reserve staff to the AMC to cover temporary absence arising from attendance of staff training;
- (d) We have enhanced on-the-job training to equip the AMC staff with the necessary skills and knowledge for enhanced operational performance; and
- (e) We have stepped up effort to fill NCSC vacancies in the AMC, e.g. by distributing recruitment advertisements in Tung Chung by means of household circulars and we engaged the assistance of Labour Department in arranging recruitment campaigns in Tung Chung in 2015. We have also increased the salary for staff on overnight shift from 1 November 2015.

29. As a result of the above measures, during the period from April to November 2015, the total overtime hours incurred by the AMC staff has reduced by 20% and the number of staff working overtime in excess of the monthly departmental ceiling of 60 hours has reduced by 71% compared with the same period in 2014.

30. We will continue to monitor the overtime work incurred for operations at the AMC with the objective of further reducing overtime work there where operationally practicable. In this connection, we will further examine the feasibility of adjusting the duty hours of the AMC staff as well as the manpower deployment (including the mix of civil service posts and NCSC positions) at the AMC. Where operationally justified, we will consider creating additional posts.

Management of post offices

On item (o)

31. In 2014-15, 24 post offices achieved an operating profit. A breakdown is set out below:

Annual operating profit	Number of post offices
>\$10 million	3
>\$5 million to \$10 million	11
up to \$5 million	10

32. The scale of operation of these post offices varies as shown below :

Number of staff	Number of post offices
>30	2
11 to 30	6
up to 10	16

The services provided by these 24 post offices are broadly the same as other post offices. Half of them accept bulk postings and thus attract more revenue. Some of them provide additional services such as post office box rental, trade declaration service, etc.

33. These 24 post offices are generally located in commercial or industrial areas with a higher transaction volume. 14 of them are on premises vested in the Post Office Trading Fund (i.e. without the need to pay rent) and thus have a lower operating cost base.

On item (p)

34. Director of Audit's Report No. 54 recommended that the Postmaster General should conduct regular evaluation of the demand for the postal services of individual post offices and their financial viability to ensure that the operation of each post office is justified, and critically explore the feasibility of closing down loss-making post offices with low demand for postal services. Taking account of changes in postal behaviour locally over the years and to pave the way for rationalising the post office network, HKP conducted a review of the standards and guidelines for post office provision set out in the Hong Kong Planning Standards and Guidelines (HKPSG) in 2014. Following approval by the Committee on Planning, Land and Development (CPLD) chaired by the Secretary for Development, the updated standards and guidelines for post office provision (see **Annex B**) took effect in December 2014. In essence, the radius of the catchment area of a post office in urban areas has been increased from 0.8 km to 1.2 km.

***Note by Clerk, PAC:** Please see Appendix 63 of this Report for Annex B.

35. Taking account of the updated planning standards and guidelines for post office provision and the following consideration factors, HKP has kept under review the operation, as well as financial viability, of individual post offices to see if they continue to be justified :

- (a) whether the catchment area of the post office in question (i.e. the area covered by a radius of 1.2 km from the location of the post office) overlaps to a large extent with the catchment area(s) of adjacent post office(s);
- (b) demand for postal services in the local community;
- (c) the financial performance of the post office; and
- (d) whether there are alternative postal facilities (e.g. street posting box, outlets for stamp sales and bill payment, etc.) in the neighborhood of the post office that are conveniently accessible to local residents.

36. In deciding on the solution to be adopted, we need to take full account of the particular local circumstances in each case. Experience indicates that the local community is often resistant to any proposals to reduce the service level of post offices, despite dwindling service demand. The implementation of measures to rationalise the post office network, therefore, frequently takes time.

37. Our effort in rationalising the post office network to date is summarised below :

- (a) *Tsim Sha Tsui Post Office* : To optimise the utilisation of resources, we ceased counter operation at Tsim Sha Tsui Post Office on Sundays with effect from 6 April 2014;
- (b) *Chuk Yuen Post Office* : Following extensive discussions with Wong Tai Sin District Council and stakeholders in the local community, with effect from 2 February 2015 we shortened the service hours of Chuk Yuen Post Office to 9:30 a.m. to 4:30 p.m. on Mondays, Tuesdays, Thursdays and Fridays and close the post office on Wednesdays;
- (c) *Rationalising the service hours of 59 post offices* : To optimise the utilisation of resources, the business hours of 59 post offices were shortened by half-an-hour to one hour with effect from 2 February 2015;
- (d) *Lok Wah Post Office* : Following extensive discussions with Kwun Tong District Council and stakeholders in the local community, we closed Lok Wah Post Office after close of business on 11 April 2015. A mobile post office started serving the local residents three times a week (9:00 a.m. to 12:30 p.m. on Mondays, Wednesdays and Fridays) from 13 April 2015;

- (e) *Cloud View Road Post Office* : Following extensive discussions with Eastern District Council's Community Building and Services Committee and other stakeholders, we closed Cloud View Road Post Office after close of business on 31 December 2015; and
- (f) *On Ting Post Office* : Following extensive discussions with Tuen Mun District Council's Commerce, Industry and Housing Committee and other stakeholders, we closed On Ting Post Office after close of business on 31 December 2015.

38. We will continue to closely monitor the overall performance of our post office network and take appropriate actions to ensure its cost-effective operation. In doing so, we will give 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. In addition, we will continue to manage the costs of service provision, explore new revenue streams for our post office network (e.g. promoting counter collection for online purchases) and identify opportunities for further rationalisation.

On item (q)

39. We display the visiting schedules of the mobile post offices at the service points and advertise them on HKP's website. The public may also make enquiries at the HKP enquiry hotline (2921 2222) and the government hotline 1823. To enhance communication to the local community, HKP will display notices/posters in the vicinity of the service points and at the offices of village representatives and the public enquiry service centres of Home Affairs Department. We will also disseminate the information to the relevant District Councillors.

40. The existing three mobile post offices adequately cater for the service needs in locations which do not justify the operation of a post office. We will keep the situation under review and, where justified, adjust our service provision in response to the postal needs of the local community. In this connection, we will review the service points of our mobile post offices biennially.

On item (r)

41. We have recently completed a review on the service points of our Mobile Post Offices No. 1 and No. 2 by analysing the transaction pattern of all 58 service points served by these two mobile post offices. Taking account of changes in the postal service demand of the local community and the improved accessibility of alternative postal facilities (e.g. post offices) in the neighbourhood of the existing service points, we will cease service provision at 13 service points that either have a low service demand or are within the service boundaries of post

offices in the vicinity (details are at **Annex C**). In addition, we will suitably adjust the frequency of visits to a number of service points to align with service demand with a view to optimising resource utilisation. Allowing time for notifying customers and making necessary preparation, we will implement the above-mentioned adjustments with effect from April 2016.

42. As for Mobile Post Office No. 3, it currently has only one service point at Lok Wah Estate. We will keep its service provision under review having regard to the service demand of the local community.

43. To ensure that the service provision of mobile post offices is aligned with the service needs of the local community, HKP will conduct a review of the service points of mobile post offices biennially.

Management of postal vehicles

On item (s)

44. We are conducting a review on the formula and assumptions currently used for calculating the utilisation rates for different types of HKP's vehicles with the objective of enhancing the management of HKP's vehicle fleet by making available more accurate and reliable utilisation data. Under this review, we will update the pre-determined factors for calculating the vehicle utilisation rates (e.g. vehicle available hours, loading and unloading time and the usage patterns of vehicles, etc.) taking account of the prevailing organisation of postal operations and the deployment arrangements for different types of departmental vehicles. The updated formula and assumptions will be on trial in the first quarter of 2016. Subject to the successful completion of the trial, we plan to implement the updated methodology for calculating the utilisation rates of departmental vehicles in April 2016.

On item (u)

45. As we procure hired vehicle services by open tender, any service providers that are able to meet the tender specifications may submit a tender. We do not have information on the number of potential suppliers in Hong Kong that were able to meet the requirements on the minimum number of light goods vehicles and trucks under the respective tender exercises, which were set by reference to our operational needs.

46. HKP is committed to encouraging market participation and market competition in our procurement of hired vehicle services in order to achieve better value for money, and has been taking action in this direction in our recent hired vehicle procurement exercises.

47. The service requirements stipulated in the tender documents (such as the routing, the number of vehicles required and the hours of service provision) in the latest round of tender exercises for light goods vehicles and trucks were drawn up having regard to the operational requirements of the user units (e.g. conveyance of delivery postmen and second pouch bags for delivery offices to support an early start of the daily delivery duty, collection of mail from post offices for conveyance to mail processing centres, transportation of mail between mail processing centres and between mail processing centres and delivery offices, etc.) and the need to optimise operational efficiency. In addition, there is a need to secure service provision for all relevant operational units. Past experience indicates that while in theory breaking up the transportation routes to cover a smaller geographical coverage may allow more service providers to submit tenders, there is a risk that we do not have any bidders for unattractive routes (e.g. routes covering remote locations and rural areas, etc.) . To minimise such risks, we bundle unattractive routes with more attractive ones so as to attract more market participation overall.

48. For light goods vehicles, in the last tender exercise conducted in February 2015 for service provision from 1 August 2015 to 31 July 2017, we introduced the following changes to the service specifications :

- (a) Vehicles of the same contractor may be used for different service regions after the award of contract to meet operational needs as directed or agreed by HKP; and
- (b) The specifications for the hired vehicles have been relaxed, i.e. increasing the number of years in service from seven years to eight years and reducing the number of passenger seats per vehicle from five to four.

49. As a result of these changes, the number of bidders increased and all the successful bidders fully met the tender requirements. This is an improvement over the last tender exercise conducted in March 2013, under which a smaller number of tenderers submitted bids. Moreover, as the tenderers of the tender exercise in March 2013 fulfilled only part of the tender requirements, we had to conduct another tender exercise to source tenderers for the remaining requirements.

50. For trucks, in the last tender exercise conducted in October 2015, we introduced the following changes to the service requirements in order to promote market participation and market competition :

- (a) We relaxed the height restriction of vehicles so that only a minimum of five trucks, instead of all trucks under the previous tender exercise, were required to meet the height restriction of under 3.2 m; and

- (b) To encourage more competition, we set out details of the transportation routes (e.g. the respective districts of the starting point and the end point, the number of call points for each route, etc.), instead of just the number of routes under the previous tender exercise, to facilitate cost estimation by potential tenderers.

51. As a result of these changes, the number of bidders significantly increased from one in the 2013 tender exercise for trucks to five in the recent tender exercise.

52. We will continue with our effort to encourage market participation and market competition in future procurement of hired vehicle services while giving due consideration to the need to meet our overall operational needs and maintain uninterrupted service provision in a cost-effective manner.

Management of Central Mail Centre and General Post Office Building

On item (x)

53. The GPO Building is situated in Site 3 of the New Central Harbourfront. In accordance with the Urban Design Study for the New Central Harbourfront completed by the Planning Department, Site 3 has been earmarked for development as a comprehensive development area. It is Government's plan to develop this site upon the completion of the Central-Wan Chai Bypass and the relocation of the relevant facilities. The reprovisioning of the GPO Building will be taken forward in step with the development of Site 3, which Government expects to commence in the next two to three years.

54. The GPO reprovisioning project comprises two parts, viz. reprovisioning of the district-tied facilities and reprovisioning of the HKP's Headquarters. The district-tied facilities (i.e. the GPO Counter Office and the Post Office Box Section, the GPO Delivery Office, and the Speedpost Section) will be reprovisioned to a location north of Lung Wo Road within Site 3 of the New Central Harbourfront to meet the postal needs of the local community. HKP's Headquarters will be reprovisioned to a government site adjacent to the CMC in Kowloon Bay. In order to maintain service continuity, the GPO Building will be demolished upon the completion of the reprovisioning of the relevant facilities.

55. In support of Government's overall project objective and project programme for the development of Site 3, HKP has been working closely with the relevant Government bureaux and departments all along (e.g. on the identification of reprovisioning sites and the timing of vacating the existing GPO site, drawing up user's requirements, etc.), and has been making its best endeavour to take forward those tasks falling within its purview in a timely manner in accordance with the established mechanism for implementing public works projects under Government's Public Works Programme. We aim to

consult the Central and Western District Council and the Kwun Tong District Council respectively on the two GPO-related reprovisioning projects in 2016.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Lorrience Chow', written over a horizontal line.

(Lorrience Chow)
for Postmaster General

c.c. Secretary for the Commerce and Economic Development
Secretary for Financial Services and the Treasury
Director of Audit

Cessation of service points of mobile post offices

(a) Mobile Post Office No. 1

District	Service point	Location	Current service schedule per week	Service duration per visit (minutes)
Tuen Mun	1. Castle Peak Hospital	Close to Castle Peak Family Clinic, at the junction of Leung Shun Road and Tsing Chung Koon Road, Tuen Mun	Wed	20
	2. Lam Tei	At the junction of Castle Peak Road and Lam Tei Main Street, Lam Tei, Tuen Mun	Fri	15
	3. Lung Mun	Oasis, Close to Block 1, Lung Mun Oasis, Tuen Mun	Mon Wed	20
	4. Sham Shing Estate	Close to Moon Yu House and Tin Hau Kindergarten, Sham Shing Estate, Tuen Mun	Mon Wed	20
	5. Shan King Estate	Close to King Wing House, Shan King Estate, Tuen Mun	Wed Fri	30
	6. Siu Hong Court	Next to Siu Fei House, Siu Hong Court, Tuen Mun	Mon Wed Fri	30
North	7. Wu Kau Teng	Wu Kau Teng Public Carpark at Wu Kau Teng Road, Fanling	Tue	15

(b) Mobile Post Office No. 2

District	Service point	Location	Current service schedule per week	Service duration per visit (minutes)
Tsuen Wan	1. Allway Gardens	At the podium, close to Block J, Allway Gardens, Tsuen Wan	Wed Fri	30
Sai Kung	2. Hang Hau,	Outside St. Vincent's Catholic Church, Hang Hau Road, Sai Kung	Tue	15
	3. Po Lo Che	Close to Po Lo Che Rest Garden, Po Lo Che Road, Sai Kung	Tue	15
Shatin	4. Prince of Wales Hospital	Close to Staff Quarters Block A, Prince of Wales Hospital, Shatin	Mon Wed	30 (Mon) 20 (Wed)
	5. Sui Wo Court	Opposite the bus terminus, Sui Wo Court, Shatin	Mon Wed Fri	30
	6. Sun Tin Wai Estate	Between Shing Wai House and Fu Wai House, Sun Tin Wai Estate, Shatin	Mon Fri	20

Annex G

Overtime work in Hongkong Post**(1) Typical circumstances giving rise to overtime work in the Postal Services Branch**

- (a) *Local mail processing* : HKP processes some 3 million of mail items daily, over half of which arrive at the Central Mail Centre in the late afternoon following mail collection at street posting boxes and close of business at post offices. Resource planning and deployment is complicated by fluctuations in the daily mail volume (e.g. rising from a typical daily traffic level of 3 million items to 6 million items a day), the mail mix (i.e. the proportion of mail that can be machine-sorted or requires manual sorting) and the actual arrival time of the mail (e.g. whether the mail arrival is spread out or bunched). Due to the need to meet HKP's stringent performance pledges (e.g. 99% of locally posted letters are delivered by the following working day), overtime work is required, particularly during peak periods;
- (b) *Mail delivery* : Last mile delivery relies heavily on the local knowledge of the delivery postmen. An influx of time-sensitive mail in excess of the normal daily handling capacity of a delivery beat cannot be readily shared out and is often handled by the delivery beats concerned by working overtime. Another example concerns mail delivery to newly developed areas until additional delivery beats are formed when the mail delivery volume has built up;
- (c) *International mail processing* : The Air Mail Centre operates round-the-clock throughout the year, processing on average 8 000 to 10 000 bags of mail items daily. On average, HKP uplifts mail to about 160 outbound flights every day for conveyance to destinations around the world. As most of these flights are passenger flights with limited freight capacity, more loading effort is required. Variations in the mix of mail with different delivery standards impact directly on the required manpower resources since the lead time allowed for the despatch of mail items to the designated flights is normally very tight. Any late changes to the schedules of the departing flights or any unforeseen developments at the mail destinations would further add to the work pressure at the Air Mail Centre; and

- (d) *Retail business* : Many post offices open from 9:30 a.m. to 5:00 p.m. on weekdays and from 9:30 a.m. to 1:00 p.m. on Saturday. Day-end balancing and mail despatching can only be performed after the close of business. Despite staggering of the duty hours of post office staff, overtime work is still unavoidable, particularly during peak periods. Sometimes, staff are required to stay behind until the security guards have collected the cash received over the counter or the mail vans have collected the mail accepted at the post offices.

(2) Key requirements on administration of overtime work under HKP's departmental control mechanism

- (a) Overtime should only be undertaken when it is strictly unavoidable. "Unavoidable" means that the duties to be performed at the time are essential, the duties must be performed at that time and cannot be deferred, and that the duties concerned cannot be performed by another officer at the time who will not be required to perform overtime. Overtime work is computed based on the applicable workload measurement system, e.g. overtime work for delivery postmen in the Mail Distribution Division is granted for handling the actual delivery workload in excess of the time required for handling the standard workload by reference to a pre-determined workload assessment method. In addition, a superior check system is in place to verify if the overtime work granted is justified;
- (b) Overtime work is subject to approval by officers at Senior Manager level or above, with detailed justifications in the overtime applications. All approvals should be properly documented in the departmental eDuty System;
- (c) When overtime work is of a recurrent nature, a list should be compiled to register the officers who are required to perform overtime work and overtime work should be allocated fairly to these staff on a rotational basis;
- (d) To control the incurrence of overtime and the accumulation of uncompensated overtime hours, the following measures are in place :
- (i) Prior approval must be sought from Assistant Postmaster General (Postal), with full justifications, for exceeding the monthly overtime ceiling of 60 hours when there are exceptional or emergency situations or circumstances of genuine need. All approvals should be documented for future reference/review;

- (ii) The departmental Attendance Management System and e-Duty System have been enhanced with the following features –
- an online list of staff approaching the monthly overtime ceiling of 60 hours is available for access by supervisors and managers; and
 - an auto alert function and a function to stop further allocation of overtime duty to staff who have exceeded the monthly overtime ceiling of 60 hours in the absence of prior approval from the designated directorate officer(s); and
- (iii) Heads of divisions/sections are required to submit a report on approval granted for performing overtime work, together with the actual number of cases exceeding the overtime ceiling of 60 hours for review at least once every two months.

(3) Measures to reduce overtime work in Hongkong Post at source

Examples include :

(a) automation / application of IT solutions

- (i) upgraded the mechanised letter sorting system to enhance the efficiency of sorting of letters to individual delivery beats;
- (ii) developing a Chinese Optical Character Recognition capability to automate the sorting of letters with Chinese addresses;
- (iii) automated counter operations and streamlining back-end operations through the implementation of an Integrated Postal Services System;

(b) process re-engineering

- (i) mail processing
 - re-engineered the operational flow of mail processing at the Central Mail Centre and the Air Mail Centre;
 - rationalised the bulk mail acceptance counter network to advance the arrival of bulk mail at the mail processing centres;

- reduced the despatch frequency for outbound Speedpost and Parcels to Macau;
- (ii) mail delivery
- even out the delivery of bulk economy mail items to optimise the operating window permitted under the service conditions (i.e. delivery within three working day);
 - review the workload of delivery beat postmen and the Speedpost teams on a regular basis with a view to matching the available manpower with the mail delivery volume through appropriate adjustments to the delivery beats;
- (iii) street posting boxes
- ceased mail collection from street posting boxes on designated public holidays and scaling down mail collection on Sundays to dovetail with the mail volume;
- (iv) post offices and P O boxes
- Tsim Sha Tsui Post Office ceased operation on Sundays due to a decline in service demand;
 - adjusted the business hours of 59 low patronage post offices/post offices in close proximity to other main post offices to rationalise service provision of the post office network;
- (c) *load-levelling measures*
- (i) implement load-levelling measures to optimise the utilisation of available manpower, e.g. easing traffic peaks by encouraging mailers to pre-book posting slots at the Central Mail Centre, the Air Mail Centre and the Bulk Air Mail Centre, extending the latest time of posting at the mail processing centres (i.e. 17:00 p.m. at the Central Mail Centre compared to 15:00 p.m. or 16:00 p.m. at other mail acceptance counters) to ease congestion at mail acceptance counters, etc.; and
- (ii) pursue work-sharing with bulk mailers, e.g. pre-sorting by mailers to reduce manual sorting effort after mail acceptance.

Annex H(1)**Allocation and Control of Overtime for Delivery Postmen****General**

1. The allocation and control of overtime for delivery postmen (DPm) are subject to stipulations in DR B43-45, except DR B43(c) regarding distribution of overtime work.
2. All delivery beats are subject to workload assessment daily to determine the total no. of working hours required. Postal Inspectors (PIs) should base on the amount of machine and manual sorted items, Proof of Delivery (POD) items, HKPCS items etc. of individual beats to assess the workload, and where justifies (i.e. whether mail volume exceeds the standard workload, re-routing is required to meet the QS, beat absorption is necessary, etc), to allocate extra resources to assist the beat concerned.

PI's Role

3. PIs should obtain the following statistical data from respective sources for input into the Mail Distribution Management System (MDMS) for workload assessment and preparation of the PI's Daily Log Sheet (Pos 49E) (**Annex 1**). These documents should be kept for 7 years either in hardcopies or softcopies:

Type of mail	Source	Example at Annex
Machine sorted LC	OMIS*	2
Manual sorted LC, flat, AO and annual report	Sorting Section/SPm	3
POD items	TTS*	4 (TTRR4010 & TTTR1060)
HKPCS	HKPCS Transfer List	5

* Transferred to MDMS automatically.

4. If the calculated time required for handling the actual mail volume of the day exceeds that for standard mail volume in the Delivery Route Details of the beat, the PI may allocate extra resources or defer delivery of second class mail (DR D272(b)(x) refers) or HKPCS as appropriate. Extra resources will normally be allocated to process all items on hand as far as possible, unless the projected traffic for the following working day is low.
5. The time required for handling of mail for a particular beat should be calculated in the following way (TST16 of the PI log sheet on 20 March 2014 at **Annex 1** is used for illustration):
 - a) To compare the actual volume of (i) LC and flats (ii) AO and (iii) POD items with the standard volume. For flats, 1 flat item = 1.5 LEU (letter equivalent unit).

- b) OT/TOIL is given to the mail exceeding the standard volume, which may vary by types of mail and nature of beat (e.g. residential or commercial, with letter box suites or door delivery). The standard time allocated for different type of mail exceeding standard volume should be submitted to SMs via area M for approval at **Annex 6**. The approval should also be documented and kept for 7 years.
- c) Amount of OT to be allocated should be calculated as illustrated in the following example:

Type of mail	Actual vol. in LEU (flat x 1.5)	Standard vol. in LEU (flat x 1.5)	Difference (Actual – Standard)	Time allocated for vol. exceeding standard ^(a)	Total OT/ TOIL allocated (mins)
LC + flat	2,428	2,575	- 147	12.93 items/min	-11.4 ^(b)
AO	10	4	+ 6	1 min/item	+ 6 ^{(b)(c)}
POD	25	23	+ 2	1.5 mins/item	+ 3 ^(d)
HKPCS	371	NA	+ 371	12.93items/min	+ 28.7 ^(c)
AR	0	NA	+ 0	1 min/ item	0
Others	0	NA	+ 0	1 min/ item	0
Additional time for using PDA for DO not yet conducted beat revision				Per beat	+ 4.5
				Per POD exceeding standard volume	0.3 x 2 = 0.6
				Extra Resources	+ 0
				Calculated OT Total	+ 32
				Entitled	30 TOIL mins

Remarks:

- (a) *OT/TOIL is given to the mail exceeding the standard volume, which may vary by types of mail and nature of beat (e.g. residential or commercial, with letter box suites or door delivery).*
- (b) *For LC, flat and AO, remaining preparation time (actual volume below standard) could be used for handling of other types of mail in excess such as POD, HKPCS, annual report, etc.*
- (c) *There may be more than one rates for delivery of AO and HKPCS.*
- (d) *For POD items for which door delivery and signature of receipt (for POD) is required, time for delivery and signature of receipt varies to a greater extent. Hence, remaining time would not be used for handling of other types of mail even if the actual volume is lower than the standard.*
6. Extra resources may be in the form of mail assistant (MA) should it be available, TOIL or OT. Basically, beat master will be arranged to perform delivery duty for his own beat first as he is most experienced in his beat. In the absence of beat master, MA/LR will be arranged to substitute the beat as far as possible.

7. In case the no. of MA/LR available is not able to cover all staff shortages, to maintain service provision, some of the beats will be absorbed by MA/LR/Pm who have already taken up other beats. In general, MA/LR will firstly be assigned to substitute a vacant beat, and after all MA/LR are exhausted, PIs will deploy MA/LR (already substituting a vacant beat) and beat masters to absorb the outstanding vacant beats. Factors affecting the selection of MA/LR/beat master to perform beat absorption include:
 - (i) willingness and suitability (e.g. health reasons) to perform OT work;
 - (ii) familiarity/ knowledge on the beat to be absorbed;
 - (iii) proximity of the serving areas of the available Pm to the serving area of the beat to be absorbed; and
 - (iv) total OT/TOIL hours worked (subject to the cap of 60 hrs a month) – the current practice is to contain each staff at the maximum of 2.5 hours daily as far as possible, unless under exceptionally heavy traffic and beat absorption.
8. The PI may adjust the total working hours required after taking into consideration the characteristics of the delivery beat and the mail composition the day, i.e. input as additional time using the remarks field in MDMS and select the remarks reason. The detailed justifications should be marked in the “Remarks” column of the PI Log sheet. PI should select the reasons of extra time(+/-) in the remarks field and input the number of extra minutes. For example, T/D - for redirection, Collect Pouch – for collect mail pouch from second pouch cabinet or storage point, Growth - for new building/estate, Indoor duty – for deploying staff to assist in Sorting Office, abs, Beat No. – for absorbing workload for a delivery beat when beat Pm or substitute staff on leave. The PI should base on his knowledge and expertise on the delivery beats under his supervision to make the discretion. Finally, the PI could allocate extra resources into the column of “Entitled OT hr/Toil min” of the delivery beat. The total minutes of all delivery beats could be shown and added up at the bottom of the PI log sheet for supervisors’ reference.
9. Under normal circumstances, the amount of OT/TOIL allocated to a DPm in a day should be confined to a maximum of 2.5 hours as far as possible so that the cumulative OT/TOIL of a DPm should be limited to below 60 hours/month. To monitor this ceiling, eDuty System has incorporated a function for respective duty officer to view the latest situation of the OT+TOIL of staff approaching a certain limit say 40 hours or 60 hours. The purpose of confining the daily OT to a max of 2.5 hours is to limit the monthly OT+TOIL within 60 hours. If this 60 hours ceiling is exceeded, formal approval from APMG(P) is required as stipulated in DR B43(d). For daily incurrence of overtime, Pos 17/2 is submitted through e-Duty from supervisors to Managers for recommendation and Senior Manager for approval. SPI/SP would seek the approval from area Manager for exceeding the daily limit of 2.5 hours under special circumstances such as under insufficient staff forces or the projected mail volume in coming days are large (e.g. during election). Should the monthly ceiling of 60 hours is exceeded, prior approval should be sought from APMG(P) and the date of approval would be input during submission of GF571.

10. In accordance with DR D272(b)(xiii), the PIs should prepare the PI's Daily Log Sheet to record details of each beat. Currently, MDMS would incorporate the data of POD items and LSM for each beat from TTS and LSM system and PI would input the traffic information for other mail types. MDMS would perform the calculation for compiling the PI Log Sheet to lighten the workload of PI as well as to improve the data accuracy. DO supervisors are using the enhanced function that the total minutes could be shown and added up. A descriptive record could be made in the remarks column of the Log Sheet to justify allocation of extra resources to each beat.
11. The PIs should complete the PI's Daily Log Sheet on time and input accurately into the MDMS. The Log Sheet should be submitted to SP/ SPI for checking and endorsement on daily basis, and to area Manager for review at least on monthly basis. The accuracy of data input will be checked by SP/SPI. That would cover comparing the source document against the PI Log Sheet at office level once per month, and also random check on the submission of PI, 1 beat per every 20 beats.
12. The PIs should generate the MDMS Report regularly monitor changes in workload, mail pattern and mode of delivery of each individual beat for cost control and operational management purposes. Area Manager would review Traffic and Resources Report of each DO regularly so as review the manpower situation coping with traffic. There is beat revision exercise conducted every 3-4 years to review the workload of each beat. Should there be significant change to a certain beat (e.g. intake of a new estate), minor patching or advancement of beat revision should be considered.

SP/SPI's Role

13. In accordance with DR D272(b)(xiv), SP/SPI of the delivery office (DO) should schedule discreet superior checks on the workload assessment and extra resources allocation recorded on the PI's Daily Log Sheet. The procedure of superior checks on data in PI Log Sheets by SP/SPI are detailed in **Attachment A**. The number of delivery beats checked daily should not be less than the ratio of 1 out of 20 delivery beats in the office. Every delivery beat has to be cross-examined and SP/SPI would follow up if they note any irregularities in the data at least once per month. SP/SPI has to ensure the Log Sheets are properly entered and the allocation of any extra resources to the concerned delivery beat is justified. If in negative, he/she should ask the PI concerned for the reasons to support the resource allocation. SP/SPI of the DO should complete and submit the Superior Check on Delivery Beat Workload Assessment (Pos 49F) (**Annex I of Attachment A**) to their area Manager monthly. The documents should be kept for 7 years in respective section.
14. During the discreet superior checks by SPI/SP, source documents as listed in para. 3 supporting the actual mail volume of various mail types should also be verified. Besides, the total volume of LC, LSM, Flat, Special, AO, POD, HKPCS items, AR and "others" and the figures should tally with the total of source documents in a DO. If the deviation is up to certain extent, say +/- 5%, detailed examination of the PI log sheets by SP/SPI is required (**Annex II of Attachment A**).

***Note by Clerk, PAC:** *Attachment A not attached.*

15. To facilitate checking and approval of OT/Toil hrs as per PI Logsheets against e-duty system, SP/SPI should fill in and attach the Form of daily OT/TOIL hrs against OT/TOIL hrs at e-duty system (**Annex 7**) when submitting PI Logsheets to area Manager.

Area Manager's Role

16. Area Managers should conduct regular checking on the PI's Daily Log Sheet that the number of delivery beats checked should not be less than 2 for each PI per week. Besides, a physical count on the number of AO items against the number indicated on the PI Log sheets should also be checked in the morning at the VPPF of the concerned delivery beat. A return has to be prepared and submitted to the area Senior Manager on monthly basis except outlying islands where the return is on quarterly basis. The documents should be kept for 7 years in Area Records. Superior Checks conducted by Area Manager as detailed in **Attachment B**.
17. Frequency of the checks are tabulated below:

	Checking by Area Managers or his/her designated staff	Frequency	No. of checked	Annex
1	Random check the accuracy of the OT/TOIL calculation in the Postal Inspector's Daily Log Sheet (Pos 49E). Area Manager should sign his/her name on the checked row of PI Log sheet and submit a monthly return on the checks	Weekly	At least 2 delivery beats for each PI	Annex I of Attachment B
2	Physical count the no. of AO items against the no. of AO items shown on the PI Log Sheets.	Monthly	At least 1 delivery beat for each PI	Annex II (i) of Attachment B
3	Physical count the no. of AO items against the no. of AO items shown on the PI Log Sheets for DOs in Outlying Islands	Quarterly	At least 2 delivery beats for each PI	Annex II (ii) of Attachment B
4	Verify source documents as listed in para 3 supporting the actual mail volume of various mail types against the figures input in PI log sheet in accordance with para. 14.	Quarterly	Each DO should be checked for sources mentioned in para. 3 once every quarter	Annex III of Attachment B

*Mail Distribution Division
May 2014*

***Note by Clerk, PAC:** Attachment B not attached.

PIA

Postal Inspector's Daily Log Sheet

From
Date: 20-3-2014
To: M(MD/KW)
Via: SP(TST/DO)

Beat No. / MA	Name of Postman	#	Mail Volume															Total Mail Volume (LEU)					Extra Resource			Entitled		Remarks			
			Prep. Rate	Std. LC	LC	LSM	Flat	Special	Std. POD Rate	POD TAX	Std. AO Rate	AO	AO Pre. Rate	HKPCS	HKPCS Pre. Rate	AR	AR Pre. Rate	EM REO	EM CAN	LC Flat Spec.	AO	POD	HKPCS	OTHERS	Adj. min (+)	Adj. min (-)	Adj. extra (*)		Calc. OT Total	OT hr	Toil min
MA1		S	12.93	7000	0	0	0	0	0.0	0	0.0	0	0.00	2956	12.93	0	0.00	0	0	0	0	0	2956	0	0	0	0	0.00		Others (HKPCS delivery) (+0 mins)	
MA4		S	12.93	7000	0	0	0	0	0.0	0	0.0	0	0.00	1338	12.93	0	0.00	0	0	0	0	0	2882	0	0	0	0	0.00		Others (HKPCS delivery) (+0 mins)	
MA5			12.93	7000	0	0	0	0	0.0	0	0.0	0	0.00	1544	33.33	0	0.00	0	0	0	0	0	0	0	0	0	0	0.00			
TST01			10.47	2043	640	770	130	0	18.0	12	5.0	5	1.00	0	10.47	0	1.00	0	0	1605	5	12	0	0	0	0	0	0.00			
TST02			12.28	2211	680	768	150	0	20.0	15	8.0	8	1.00	0	12.28	0	1.00	0	0	1673	8	15	0	0	0	0	0	0.00			
TST03			10.59	1970	520	819	120	0	20.0	10	4.0	4	1.00	0	10.59	0	1.00	0	0	1519	4	10	0	0	0	0	0	0.00			
TST04		S	11.33	2244	520	780	130	0	21.0	19	6.0	6	1.00	0	11.33	0	1.00	0	0	1495	6	19	0	0	0	0	0	0.00			
TST05			11.60	2150	640	690	130	0	24.0	16	7.0	7	1.00	0	11.60	0	1.00	0	0	1525	7	16	0	0	0	0	0	0.00			
TST06			11.59	2283	760	749	130	0	17.0	27	3.0	3	1.00	0	11.59	0	1.00	0	0	1704	3	27	0	0	0	0	0	0.00			
TST07		S	12.00	2160	1360	975	200	0	24.0	23	8.0	13	1.00	0	12.00	0	1.00	0	0	2635	13	23	210	0	15	0	0	83	1.00	15	Growth (16 & 18 Mody Road) (+15 mins)
TST08			11.60	2540	680	586	160	0	25.0	16	6.0	6	1.00	0	11.60	0	1.00	0	0	1506	6	16	0	0	0	0	0	0.00			
TST09		S	0.00	0	1100	225	0	0	99.0	39	0.0	0	0.00	0	0.00	0	0.00	0	0	1325	0	39	0	0	0	0	30	35	0.00	30	SPm duty (30 mins *)
TST10			11.37	2035	830	658	160	0	16.0	11	8.0	8	1.00	0	11.37	0	1.00	0	0	1728	8	11	0	0	0	0	0	0.00			
TST11			10.62	2060	590	516	220	0	16.0	30	5.0	5	1.00	0	10.62	0	1.00	0	0	1436	5	30	0	0	0	0	0	0.00			
TST12			11.50	1748	640	507	120	0	19.0	12	5.0	5	1.00	0	11.50	0	1.00	0	0	1327	5	12	212	0	0	0	0	0	0.00		

Postal Inspector's Daily Log Sheet

From:
Date: 20-3-2014
To: M(MD/KW)
Via: SP(TST/DO)

Beat No. / MA	Name of Postman	#	Mail Volume															Total Mail Volume (LEU)					Extra Resource			Entitled		Remarks				
			Prep. Rate	Std. LC	LC	LSM	Flat	Special	Std. POD	POD	Std. AO	AO	AO Pre. Rate	HKPCS	HKPCS Pre Rate	AR	AR Pre Rate	EM REO	EM CAN	LC Flat Spec.	AO	POD	HKPCS	OTHERS	Adj. min (+)	Adj. min (-)	Adj. extra (*)		Calc. OT Total	OT hr	Toil min	
TST13	I		12.37	2189	1120	1029	290	0	25.0	20	5.0	5	1.00	0	12.37	0	1.00	0	0	2584	5	20	0	0	0	0	0	0	37	0.00	30	
TST14			11.96	1925	420	498	90	0	15.0	16	3.0	3	1.00	0	11.96	0	1.00	0	0	1053	3	16	174	0	0	0	0	0	0	0.00	-	
TST15			12.05	2277	830	1035	300	0	24.0	15	3.0	3	1.00	0	12.05	0	1.00	0	0	2315	3	15	0	0	0	0	0	0	8	0.00	-	
TST16			12.93	2575	830	1178	280	0	23.0	25	4.0	10	1.00	371	12.93	0	1.00	0	0	2428	10	25	371	0	0	0	0	0	32	0.00	30	
TST17	S		12.03	2166	620	729	270	0	19.0	15	5.0	5	1.00	0	12.03	0	1.00	0	0	1754	5	15	0	0	0	0	0	0	0	0.00	-	
TST18			12.89	2411	780	1115	350	0	22.0	17	7.0	7	1.00	126	12.89	0	1.00	0	0	2420	7	17	126	0	0	0	0	0	16	0.00	15	
TST19	I		13.78	2550	760	1358	320	0	32.0	35	4.0	4	1.00	0	13.78	0	1.00	0	0	2598	4	35	0	0	0	15	0	0	0	0.00	-	Others (one bulk for 8 registered items) (-15 mins)
TST20			13.37	2435	1360	1135	330	0	37.0	13	5.0	5	1.00	0	13.37	0	1.00	0	0	2990	5	13	0	0	0	0	0	47	0.00	45		
TST21			14.15	2688	1050	1272	300	0	31.0	33	7.0	7	1.00	0	14.15	0	1.00	0	0	2772	7	33	0	8	0	0	0	22	0.00	15		
TST22			12.88	2640	730	1054	320	0	33.0	30	6.0	6	1.00	119	12.88	0	1.00	0	0	2264	6	30	119	0	0	0	0	0	0	0.00	-	
TST23			11.08	2294	930	686	310	0	28.0	19	6.0	6	1.00	0	11.08	0	1.00	0	0	2081	6	19	0	0	0	0	0	0	0	0.00	-	
TST24	S		12.97	2180	730	675	300	0	14.0	16	5.0	5	1.00	30	12.97	0	1.00	0	0	1855	5	16	30	0	0	0	0	0	0	0.00	-	
Total Item			72774	19120	19807	5110	0		484		136		7080		8			0	0	46592	136	484	7080	8				280	1.00	180		

Flat 5110X0.5
=2555

54300
- Flat 2555
51745

P1B 20/3/14

Postal Inspector's Daily Log Sheet

From:
Date: 20-3-2014
To: M(MD/KW)
Via: SP(TST/DO)

Beat No. / MA	Name of Postman	#	Mail Volume															Total Mail Volume (LEU)					Extra Resource			Entitled		Remarks			
			Prep. Rate	Std. LC	LC	LSM	Flat	Special	Std. POD	POD	Std. AO	AO	AO Pre Rate	HKPCS	HKPCS Pre Rate	AR	AR Pre Rate	EM REO	EM CAN	LC Flat Spec	AO	POD	HKPCS	OTHERS	Adj. min (+)	Adj. min (-)	Adj. extra (*)		Calc. OT Total	OT hr	Toil min
									Std. Rate	TAX	Std. Rate																				
MA2		S	1.00	7000	0	0	0	0	0.0	0	0.0	0	1.00	0	0.00	0	1.00	0	0	0	0	0	1140	0	0	0	0	0.00			
									0.00	0	1.00	0	0.00	1140	33.33	0	0.00	0	0	0	0	0	1140	0	0	0	0	0.00			
TST26			12.91	1839	830	1280	310	0	15.0	18	5.0	12	1.00	98	12.91	0	1.00	0	0	0	0	12	18	98	0	0	0	0	82	1.00	15
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	2575	12	18	98	0	0	0	0	0.00	
TST27			11.91	1969	710	852	270	0	15.0	18	5.0	2	1.00	127	11.91	0	1.00	0	0	0	0	2	18	127	0	0	0	0	18	0.00	15
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	1967	2	18	127	0	0	0	0	0.00	
TST28			11.09	1745	610	527	190	0	25.0	19	5.0	3	1.00	144	11.09	0	1.00	0	0	0	0	3	19	283	0	0	0	0	0	0.00	
									1.50	0	1.00	0	0.00	139	33.33	0	0.00	0	0	0	0	1422	3	19	283	0	0	0	0	0.00	
TST29		S	10.93	1555	680	505	260	0	14.0	12	6.0	11	1.00	48	10.93	0	1.00	0	0	0	0	11	12	48	0	0	0	0	16	0.00	15
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	1575	11	12	48	0	0	0	0	0.00	
TST30			10.56	1664	520	609	270	0	11.0	15	5.0	8	1.00	0	10.56	0	1.00	0	0	0	0	8	15	0	0	0	0	0	3	0.00	
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	1534	8	15	0	0	0	0	0	0.00	
TST31			12.77	2511	1410	857	330	0	25.0	22	6.0	12	1.00	0	12.77	0	1.00	0	0	0	12	22	0	0	0	0	0	31	0.00	30	
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	2762	12	22	0	0	0	0	0	0.00	
TST32			11.62	1822	590	478	190	0	18.0	14	7.0	6	1.00	0	11.62	0	1.00	0	0	0	6	14	0	0	0	0	0	0	0	0.00	
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	1353	6	14	0	0	0	0	0	0.00	
TST33			12.28	1966	730	749	270	0	17.0	10	7.0	9	1.00	50	12.28	0	1.00	0	0	0	9	10	50	0	0	0	0	4	0.00		
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	1884	9	10	50	0	0	0	0	0.00	
TST34		S	10.96	1851	490	936	260	0	17.0	9	7.0	14	1.00	82	10.96	0	1.00	0	0	0	14	9	82	0	0	0	0	16	0.00	15	
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	1816	14	9	82	0	0	0	0	0.00	
TST35			10.13	1854	680	885	280	0	19.0	18	2.0	7	1.00	85	10.13	0	1.00	0	0	0	7	18	85	0	0	0	0	31	0.00	30	
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	1985	7	18	85	0	0	0	0	0.00	
TST36			11.72	1920	510	676	270	0	20.0	9	7.0	6	1.00	0	11.72	0	1.00	0	0	0	6	9	0	0	0	0	0	0	0	0.00	
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	1591	6	9	0	0	0	0	0	0.00	
TST37			11.02	1711	460	515	230	0	23.0	15	8.0	6	1.00	130	11.02	0	1.00	0	0	0	6	15	130	0	0	0	0	0	0	0.00	
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	1320	6	15	130	0	0	0	0	0.00	
TST38			12.21	1862	480	810	180	0	24.0	23	7.0	5	1.00	0	12.21	0	1.00	0	0	0	5	23	0	0	0	0	0	0	0	0.00	
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	1560	5	23	0	0	0	0	0	0.00	
TST39		S	11.52	1990	510	887	200	0	22.0	21	5.0	4	1.00	0	11.52	0	1.00	0	0	0	4	21	0	0	0	0	60	60	1.00		Indoor duty 0630-0730 (60 mins *)
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0	0	0	1697	4	21	0	0	0	0	0	0.00	

Postal Inspector's Daily Log Sheet

From:
Date: 20-3-2014
To: M(MD/KW)
Via: SP(TST/DO)

Beat No. / MA	Name of Postman	#	Mail Volume															Total Mail Volume (LEU)					Extra Resource			Entitled		Remarks			
			Prep. Rate	Std. LC	LC	LSM	Flat	Special	Std. POD	POD	Std. AO	AO	AO Pre. Rate	HKPCS	HKPCS Pre. Rate	AR	AR Pre. Rate	EM REG	EM CAN	LC Flat Spec	AO	POD	HKPCS	OTHERS	Adj. min (+)	Adj. min (-)	Adj. extra (*)		Calc. OT Total	OT hr	Toil min
									Std. Rate	TAX	Std. Rate	Std. Rate																			
TST40			10.87	1582	340	640	130	0	12.0	12	4.0	3	1.00	0	10.87	0	1.00	0	0	1175	3	12	0	0	0	0	0	0	0.00		
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0									0	0.00		
TST41			11.80	2245	640	831	220	0	27.0	20	8.0	6	1.00	0	11.80	0	1.00	0	0	1801	6	20	0	0	0	0	0	0	0.00		
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0									0	0.00		
TST42			11.98	2026	440	741	180	0	17.0	14	7.0	2	1.00	34	11.98	0	1.00	0	0	1451	2	14	34	0	0	0	0	0	0.00		
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0									0	0.00		
TST43			10.92	1694	440	557	210	0	16.0	8	5.0	3	1.00	0	10.92	0	1.00	0	0	1312	3	8	0	0	0	0	15	15	0.00	15	Growth At 17-19 Ashley Rd (15 mins *)
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0												
TST44	S		11.38	1742	590	630	160	0	20.0	14	3.0	4	1.00	0	11.38	0	1.00	0	0	1460	4	14	0	0	0	0	0	0	0.00		
									1.50	0	1.00	0	0.00	0	33.33	0	0.00	0	0									0	0.00		
TST45			10.94	1774	390	588	200	0	15.0	14	6.0	1	1.00	0	10.94	0	1.00	0	0	1278	1	14	0	0	0	0	0	0	0.00		
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0									0	0.00		
TST46			10.58	1561	360	537	180	0	10.0	10	5.0	4	1.00	87	10.58	0	1.00	0	0	1167	4	10	87	0	0	0	0	0	0.00		
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0									0	0.00		
TST47			11.75	2142	570	918	240	0	16.0	17	5.0	2	1.00	0	11.75	0	1.00	0	0	1848	2	17	0	0	0	0	0	0	0.00		
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0									0	0.00		
TST48	S		11.02	1832	490	702	160	0	15.0	10	5.0	2	1.00	112	11.02	0	1.00	0	0	1432	2	10	112	0	0	0	0	0	0.00		
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0									0	0.00		
TST49			11.63	1838	340	455	140	0	19.0	10	5.0	3	1.00	16	11.63	0	1.00	0	0	1005	3	10	16	0	0	0	0	0	0.00		
									1.50	0	1.00	0	0.00	0	0.00	0	0.00	0	0									0	0.00		
TST50			10.63	1455	340	420	190	0	12.0	15	0.0	1	1.00	0	10.63	0	1.00	0	0	1045	1	15	0	0	0	0	0	0	0.00		
									1.50	0	1.00	0	0.00	0	33.33	0	0.00	0	0									0	0.00		
Total Item			53150	14150	17585	5520	0		367		136		2292		0		0	0	40015	136	367	2292	0				276	2.00	135		

Beat No.	Absence	Remarks
MA2		
TST29		
TST39		
TST44		
TST48		

42810
- Flat 2760
40050

PIC

Postal Inspector's Daily Log Sheet

From: _____
Date: 20-3-2014
To: M(MD/KW)
Via: SP(TST/DC)

Beat No. / MA	Name of Postman	#	Mail Volume																Total Mail Volume (LEU)				Extra Resource			Entitled		Remarks																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
			Prep. Rate	Std. LC	LC	LSM	Flat	Special	Std. POD	POD	Std. AO	AO	AO Pre. Rate	HKPCS	HKPCS Pre Rate	AR	AR Pre Rate	EM REO	EM CAN	LC Flat Spec.	AO	POD	HKPCS	OTHERS	Adj. min (+)	Adj. min (-)	Adj. extra (*)		Calc. OT Total	OT hr	Toil min																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						
									Std. Rate	TAX	Std. Rate																					Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate	Pre Rate

Flat 247 * 0.5 = 1173.5

Beat No.	Absence	Remarks
MA3		
TST57		Vacation Leave

23757
- Flat 1173.5
22883.5

USM.

Annex 2

Report ID : OMBTD01R

MLSSR / OMIS Beat Sorting Daily Report (Per DO)

Frequency :

Daily

Last OMIS Updated TimeStamp :

LAST_TIMESTAMP

2014年3月20日 上午04:19:29

No. of Sorted Mails (Region / DO / Section / Beat)				Total(DAY)	14/03/19
KLN	TST/DO	TST	001	365	365
			002	427	427
			003	372	372
			004	780	780
			005	690	690
			006	345	345
			007	465	465
			008	272	272
			009	126	126
			010	491	491
			011	297	297
			012	507	507
			013	668	668
			014	264	264
			015	677	677
			016	569	569
			017	368	368
			018	812	812
			019	760	760
			020	804	804
			021	590	590
			022	480	480
			023	686	686
			024	399	399
			026	405	405
			027	852	852
			028	264	264
			029	505	505
			030	609	609
			031	156	156
			032	329	329
			033	434	434
			034	936	936
			035	885	885
			036	676	676
			037	515	515
			038	810	810
			039	659	659
			040	462	462

2014年3月20日

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上午06:59:08

Report ID : OMBTD01R

MLSSR / OMIS Beat Sorting Daily Report (Per DO)

Frequency :

Daily

Last OMIS Updated TimeStamp :

LAST_TIMESTAMP

2014年3月20日 上午04:19:29

No. of Sorted Mails (Region / DO / Section / Beat)				Total(DAY)	14/03/19
KLN	TST/DO	TST	041	831	831
			042	555	555
			043	557	557
			044	630	630
			045	588	588
			046	537	537
			047	918	918
			048	702	702
			049	455	455
			050	420	420
			051	1,254	1,254
			052	1,159	1,159
			053	1,335	1,335
			054	1,307	1,307
			055	1,256	1,256
			056	1,156	1,156
			057	1,608	1,608
			058	1,077	1,077
			059	310	310
			060	845	845
			070 = 9A	99	99
			071 = 1A	405	405
			072 = 2A	341	341
			073 = 3A	447	447
			074 = 6A	404	404
			075 = 7A	510	510
			076 = 8A	314	314
			077 = 10A	167	167
			078 = 11A	219	219
			079 = 13A	361	361
			080 = 14A	234	234
			081 = 15A	358	358
			082 = 16A	609	609
			083 = 17A	361	361
			084 = 18A	303	303
			085 = 19A	598	598
			086 = 20A	331	331
			087 = 21A	682	682
			088 = 22A	574	574

2014年3月20日

- 2 -

上午06:59:08

Report ID : OMBTD01R

MLSSR / OMIS Beat Sorting Daily Report (Per DO)

Frequency : Daily

LAST_TIMESTAMP

Last OMIS Updated TimeStamp : 2014年3月20日 上午04:19:29

No. of Sorted Mails (Region / DO / Section / Beat)				Total(DAY)	14/03/19
KLN	TST/DO	TST	089 = 24A	276	276
			090 = 26A	875	875
			091 = 28A	263	263
			092 = 31A	701	701
			093 = 32A	149	149
			094 = 33A	315	315
			095 = 39A	228	228
			096 = 40A	178	178
			097 = 42A	186	186
			999	1,980	1,980
		Total(SECTION)		50,679	50,679
	Total(DO)		50,679	50,679	
Total(REGION)		50,679	50,679		

2014年3月20日

- 3 -

上午06:59:08

Mail Traffic of Ordinary Mail Records for Delivery beats

Date: 20-3-14							
Beat No.	Flat	AO	綠盒 (箱)	綠盒 (尾數)	年報 AR	Other LC	HKPCS
T13	290	5	3	100			
P/A T14	90	3	1	80			174
T15	300	3	2	150			
T16	280	10	2	150			371
T17	270	5	1	280			
T18	350	7	2	100			126
T19	320	4	2	80			
T20	330	5	4				
T21	300	7	3	30	8		
T22	320	6	2	50			119
T23	310	6	2	250			
T24	300	5	2	50			30
Prepared by SPM							
Checked by PI							

2460 266 2740 1320

Mail Traffic of Ordinary Mail Records for Delivery beats

Date: 20-3-2014							
Beat No.	Flat	AO	綠盒 (箱)	綠盒 (尾數)	年報 AR	Other LC	HKPCS
T1	130	5	1	300			
T2	170	8	2				
T3	120	4	1	180			
T4	130	6	1	180			
T5	130	7	1	300			
T6	130	3	2	80			
T7	200	4	1				210
T8	160	6	2				
T9	Mail Room						
T10	160	8	2	150			
T11	220	6	1	250			
T12	120	5	1	300			212
Prepared by SPM							
Checked by PI							

1650 70 610 1740

Mail Traffic of Ordinary Mail Records for Delivery beats

Date: 20/03/2014 *THUR*

Beat No.	Flat	AO	綠盒 (箱)	綠盒 (尾數)	年報 AR	Other LC	HKPCS
T26	310/2	2	150				25
T27	270/2	2	30				127
T28	190/3	1	270				184 139
T29	260/11	2					48
T30	270/08	1	180				
T31	330/12	4	50				
T32	190/6	1	250				
T33	270/9	2	50				50
T34	260/14	1	150				82
T35	280/7	2					85
T36	270/6	1	170				
T37	230/6	1	120				130
Prepared by SPM							
Checked by PI							

3130 96 6800 1420

Mail Traffic of Ordinary Mail Records for Delivery beats

Date: 20-3-2014

Beat No.	Flat	AO	綠盒 (箱)	綠盒 (尾數)	年報 AR	Other LC	HKPCS
T38	180	5	1	140			
T39	200	4	1	170			
T40	130	3	1				
T41	220	6	1	300			
T42	180	2	1	100			34
T43	210	3	1	100			
T44	160	4	1	250			
T45	200	1	1	50			
T46	180	4	1	20			87
T47	240	2	1	230			
T48	160	2	1	150			112
T49	140	3	1				16
T50	190	1	1				
Prepared by SPM							
Checked by PI							

2390 40 4020 150

Mail Traffic of Ordinary Mail Records for Delivery beats

Date: 20 - 3 - 14

Beat No.	Flat	上樓AO (AO 1)	座頭AO (AO 2)	綠盒 (箱)	綠盒 (尾數)	年報 AR	Other LC	HKPCS
T51	268	12	3	1	120	4	57	
T52	241	13	8	1	100	3	60	
T53	273	25	20	1	100	10	65	
T54	270	23	33	1	100	11	63	
T55	288	38	39	1	100	12	70	
T56	275	17	25	1	100	7	66	
T57	279	20	27	1	100	9	69	
T58	272	22	28	1	80	10	66	
T59	37	2	2	1	1	1	19	
T60	144	5	11	1	80	3	29	
Prepared by SPM								
Checked by PI								

REPORT ID : TTR4010

TRACK AND TRACE SYSTEM
DELIVERY RESULT SUMMARY

PAGE : 1 of 4
DATE : 20/03/2014 10:05

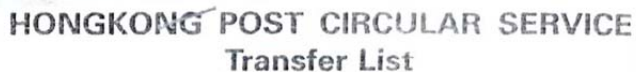
Item Type : REGISTERED
Delivery Date : From 20/03/2014 To 20/03/2014
Delivery Team/Beat : From First To Last
Delivery Office : TST/DO
Delivery Session : 0

REG

Delivery Team/Beat	No. of Items Issued	No. of Returns										Items O/S	Total No. of Items
		Receipt	NO	CF	Returned	Box	DLO	Redirect	Pending	SND	Others		
INTERNAL	18	5	0	0	2	0	2	0	0	9	0	0	18
TST1	5	0	0	0	0	0	0	0	0	0	0	5	0
TST10	7	0	0	0	0	0	0	0	0	0	0	7	0
TST11	20	0	0	0	0	0	0	0	0	0	0	20	0
TST12	3	0	0	0	0	0	0	0	0	0	0	3	0
TST13	14	0	0	0	0	0	0	0	0	0	0	14	0
TST14	10	0	0	0	0	0	0	0	0	0	0	10	0
TST15	11	0	0	0	0	0	0	0	0	0	0	11	0
TST16	13	0	0	0	0	0	0	0	0	0	0	13	0
TST17	10	0	0	0	0	0	0	0	0	0	0	10	0
TST18	11	0	0	0	0	0	0	0	0	0	0	11	0
TST19	24	0	0	0	0	0	0	0	0	0	0	24	0
TST2	10	0	0	0	1	0	0	0	0	0	0	9	1
TST20	6	0	0	0	0	0	0	0	0	0	0	6	0
TST21	27	0	0	0	0	0	0	0	0	0	0	27	0
TST22	22	2	0	0	0	0	0	0	0	0	0	20	2
TST23	8	0	0	0	0	0	0	0	0	0	0	8	0
TST24	16	0	0	0	0	0	0	1	0	0	0	15	1
TST26	14	0	0	0	0	0	0	0	0	0	0	14	0

Annex 4(b)

*Note by Clerk, PAC: Only one sample copy is included in this Report.



From: Pmr/Oi/c (KAL) 4844823 To: SP/Oi/c (TS7) /DO

Reference No.: E / 10647 / 14 | **Date of Despatch:**

Total No. of Bags: _____

Name of Sender: _____

Date of Posting: _____

Area/Name of Estate	Quantity
P I A 3	2808
Total:	

Despatching Officer: _____

Verification of Contents:

☐ Correct

☐ No. of items in short: P I B Done on 20/3/14

☐ No. of items in excess: P I B 2669, 139

☐ Others: Completed on 20/3/14

*Tick as appropriate

Checking Supervisor: _____

Please return the duplicate copy to the Acceptance Office

****Note by Clerk, PAC: Only one sample copy is included in this Report.***

Time Allocated for Mail Volume exceeding Standard

Beat No.	Time allocated for vol exceeding standard ^(a)							
	LC + flat (items / min)	AO1 (min / item)	AO2 (min / item)	POD (min / item)	HKPCS 1 (min / item)	HKPCS 2 (min / item)	AR (min / item)	Others (min / item)
TST01	10.47	1	N.A.	1.5	10.47	N.A.	1	1
TST02	12.28	1	N.A.	1.5	12.28	N.A.	1	1
TST03	10.59	1	N.A.	1.5	10.59	N.A.	1	1
TST04	11.33	1	N.A.	1.5	11.33	N.A.	1	1
TST05	11.6	1	N.A.	1.5	11.6	N.A.	1	1
TST06	11.59	1	N.A.	1.5	11.59	N.A.	1	1
TST07	12	1	N.A.	1.5	12	N.A.	1	1
TST08	11.6	1	N.A.	1.5	11.6	N.A.	1	1
TST09 (ICC Mailroom)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
TST10	11.37	1	N.A.	1.5	11.37	N.A.	1	1
TST11	10.62	1	N.A.	1.5	10.62	N.A.	1	1
TST12	11.5	1	N.A.	1.5	11.5	33.33	1	1
TST13	12.37	1	N.A.	1.5	12.37	33.33	1	1
TST14	11.96	1	N.A.	1.5	11.96	33.33	1	1
TST15	12.05	1	N.A.	1.5	12.05	N.A.	1	1
TST16	12.93	1	N.A.	1.5	12.93	N.A.	1	1
TST17	12.03	1	N.A.	1.5	12.03	33.33	1	1
TST18	12.89	1	N.A.	1.5	12.89	N.A.	1	1
TST19	13.78	1	N.A.	1.5	13.78	N.A.	1	1
TST20	13.37	1	N.A.	1.5	13.37	33.33	1	1
TST21	14.15	1	N.A.	1.5	14.15	33.33	1	1
TST22	12.88	1	N.A.	1.5	12.88	N.A.	1	1
TST23	11.08	1	N.A.	1.5	11.08	N.A.	1	1
TST24	12.97	1	N.A.	1.5	12.97	33.33	1	1
TST26	12.91	1	N.A.	1.5	12.91	33.33	1	1
TST27	11.91	1	N.A.	1.5	11.91	N.A.	1	1
TST28	11.09	1	N.A.	1.5	11.09	33.33	1	1
TST29	10.93	1	N.A.	1.5	10.93	N.A.	1	1
TST30	10.56	1	N.A.	1.5	10.56	N.A.	1	1
TST31	12.77	1	N.A.	1.5	12.77	N.A.	1	1
TST32	11.62	1	N.A.	1.5	11.62	N.A.	1	1
TST33	12.28	1	N.A.	1.5	12.28	N.A.	1	1
TST34	10.96	1	N.A.	1.5	10.96	N.A.	1	1
TST35	10.13	1	N.A.	1.5	10.13	N.A.	1	1
TST36	11.72	1	N.A.	1.5	11.72	N.A.	1	1
TST37	11.02	1	N.A.	1.5	11.02	N.A.	1	1
TST38	12.21	1	N.A.	1.5	12.21	N.A.	1	1
TST39	11.52	1	N.A.	1.5	11.52	N.A.	1	1
TST40	10.87	1	N.A.	1.5	10.87	N.A.	1	1
TST41	11.8	1	N.A.	1.5	11.8	N.A.	1	1
TST42	11.98	1	N.A.	1.5	11.98	N.A.	1	1
TST43	10.92	1	N.A.	1.5	10.92	N.A.	1	1
TST44	11.38	1	N.A.	1.5	11.38	33.33	1	1
TST45	10.94	1	N.A.	1.5	10.94	N.A.	1	1
TST46	10.58	1	N.A.	1.5	10.58	N.A.	1	1
TST47	11.75	1	N.A.	1.5	11.75	N.A.	1	1
TST48	11.02	1	N.A.	1.5	11.02	N.A.	1	1
TST49	11.63	1	N.A.	1.5	11.63	N.A.	1	1

Beat No.	Time allocated for vol exceeding standard ^(a)							
	LC + flat (items / min)	AO1 (min / item)	AO2 (min / item)	POD (min / item)	HKPCS 1 (min / item)	HKPCS 2 (min / item)	AR (min / item)	Others (min / item)
TST50	10.63	1	N.A.	1.5	10.63	33.33	1	1
TST51	15.95	2	0.5	2	N.A.	33.33	0.5	0.5
TST52	16.33	2	0.5	2	16.3	33.33	0.5	0.5
TST53	16.64	2	0.5	2	N.A.	33.33	0.5	0.5
TST54	16.5	2	0.5	2	16.5	33.33	0.5	0.5
TST55	16.53	2	0.5	2	16.5	33.33	0.5	0.5
TST56	15.75	2	0.5	2	15.8	33.33	0.5	0.5
TST57	16.24	2	0.5	2	N.A.	33.33	0.5	0.5
TST58	16.61	2	0.5	2	N.A.	33.33	0.5	0.5
TST59	18.27	2	0.5	2	N.A.	33.33	0.5	0.5
TST60	14.86	2	0.5	2	N.A.	33.33	0.5	0.5

Remarks:

- (a) OT/TOIL is given to the mail exceeding the standard volume, which may vary by types of mail and nature of beat (e.g. residential or commercial, with letter box suites or door delivery).
- (b) For LC and flat for which door delivery is not required, remaining preparation time (actual volume below standard) could be used for handling of other types of mail in excess such as AO, POD, HKPCS, annual report, etc
- (c) For AO items, remaining preparation time (actual volume below standard) could be used for handling of other types of mail in excess such as LC, POD, HKPCS, annual report, etc
- (d) For POD items for which door delivery and signature of receipt is required, time for delivery and signature of receipt varies to a greater extent. Hence, remaining time would not be used for handling of other types of mail even if the actual volume is lower than the standard
- (e) Additional time for PDA: 4.5 mins / beat, 0.3 min / item

Recommended by

Signature: _____

Name: _____

Post: _____

M(MD/KW)

Endorsed by:

Signature: _____

Name: _____

Post: _____

SM(MD/K)

To: M(MD/ KW)

From: SP (TST/DO)

OT / TOIL Situation of TST/DO Date: 20 March , 2014									
OT/TOIL hrs related to MDMS traffic (A)			OT/TOIL hrs related to Other activities (B)			Total OT/TOIL hrs incurred (C) = A + B		Total OT / TOIL hrs of delivery office (in e-duty) (D)	
Per PI Logsheet	OT (hr)	TOIL (min)	Others	OT (hr)	TOIL (min)	OT (hr)	TOIL (min)	OT (hr)	TOIL (min)
PI 1	1	180	Indoor duty	1		2	180	2	180
PI 2	1	135	Pouch Feeding			1	135	1	135
PI 3	0	120				0	120	0	120
Total:	2	435		1	0	3	435	3	435

Note:

1. Please input the total OT/TOIL hrs incurred by Pm as per the PI Logsheet of each area Postal Inspectors at columns under A.
2. Please provide the OT/TOIL hrs incurred by Pm/MA which are not shown in PI Logsheet at columns under B.
3. Area Manager should take note that the Total OT / TOIL hrs of delivery office (in e-duty) (D) should NOT be more than the total OT/TOIL hrs incurred (C) normally. Otherwise, please check with SP/SPI/PI concerned.

TRAINING COURSE IN INDUSTRIAL ENGINEERING (JANUARY 1999)**METHODS AND PROCEDURE IMPROVEMENT**

Method study as a tool for productivity improvement. The basic approach, covering the identification of suitable areas for investigation that maximises the benefit whilst minimises the effort. The recording techniques and their use. Workplace layout. Examining, developing, implementing and maintaining improved methods and procedures, including a problem solving methodology. An introduction to project planning. 4 hours

PRACTICAL WORK RELATED TO METHODS AND PROCEDURE IMPROVEMENT

- Practical on Project Planning 3 hours
- Practical on estimation staff levels in variable work situation (closely aligned to postal work). 3 hours
- Computer simulation of a service counter and determining the optimum number of service channels (closely aligned to postal work). 4 hours

TIME STUDY PRACTICAL (including Production Study)

Use of the stopwatch; flyback, cumulative, differential and selective timing methods. Element breakdown and timing. Performance rating using the O-100 B.S. system. Calculation of the timing error. Time study practice using IMS examination films.

This section of the course will enable participants to gain the knowledge necessary to conduct a time study to a professional standard of practice. 15 hours

ACTIVITY SAMPLING

The activity sampling procedure using both random and fixed time intervals. Determination of the sample size. Application to methods improvement and work measurement. 3 hours

ACTIVITY SAMPLING PRACTICAL

Computer simulation of a service centre to determine a breakdown of productive and non-productive time, and how productivity can be measured for each section of the service centre and in total. 4 hours

INTRODUCTION TO PREDETERMINED MOTION TIME SYSTEMS (PMTS)

PMTS as a tool for methods improvement and work measurement. A basic appreciation of the generic family of MTM systems, namely MTM-1, MTM-2, MTM-3, MTMX. Their applications, advantages and limitations. 4 hours

TOTAL HOURS 40 hours

**Establishment and Strength of Postal Officer and Postman Grades
in Air Mail Centre of International Mail Division and Mail Distribution Division from 2010-11 to 2015-16
(up to 6.12.2015)**

Air Mail Centre of International Mail Division (IMD)

Grade	as at 31.3.2011				as at 31.3.2012				as at 31.3.2013				as at 31.3.2014				as at 31.3.2015				as at 6.12.2015			
	Establishment	Strength*	Vacancy	Vacancy Rate	Establishment	Strength*	Vacancy	Vacancy Rate	Establishment	Strength*	Vacancy	Vacancy Rate	Establishment	Strength*	Vacancy	Vacancy Rate	Establishment	Strength*	Vacancy	Vacancy Rate	Establishment	Strength*	Vacancy	Vacancy Rate
Postal Officer Grade	120	126	-6	-5.00%	121	124	-3	-2.48%	121	117	4	3.31%	125	133	-8	-6.40%	125	134	-9	-7.20%	125	135	-10	-8.00%
Postman Grade	86	98	-12	-13.95%	87	119	-32	-36.78%	87	104	-17	-19.54%	90	105	-15	-16.67%	90	96	-6	-6.67%	90	90	0	0.00%

Mail Distribution Division

Grade	as at 31.3.2011				as at 31.3.2012				as at 31.3.2013				as at 31.3.2014				as at 31.3.2015				as at 6.12.2015			
	Establishment	Strength*	Vacancy	Vacancy Rate	Establishment	Strength*	Vacancy	Vacancy Rate	Establishment	Strength*	Vacancy	Vacancy Rate	Establishment	Strength*	Vacancy	Vacancy Rate	Establishment	Strength*	Vacancy	Vacancy Rate	Establishment	Strength*	Vacancy	Vacancy Rate
Postal Officer Grade	399	385	14	3.51%	399	382	17	4.26%	399	377	22	5.51%	399	393	6	1.50%	402	401	1	0.25%	406	400	6	1.48%
Postman Grade	2,199	2,208	-9	-0.41%	2,210	2,164	46	2.08%	2,210	2,170	40	1.81%	2,210	2,227	-17	-0.77%	2,240	2,254	-14	-0.63%	2,238	2,238	0	0.00%

Remarks:

The strength sometimes exceeded the establishment due to temporary redeployment of staff from other operational divisions/sections to meet operational needs in MDD and AMC. For example, in MDD, pending the formation of new delivery beats, delivery work to newly developed areas may be taken up by existing staff in a delivery office on a sharing basis or staff redeployed from other units. In AMC, staff redeployment may be arranged to cope with an increase in workload (e.g. the additional workload arising from a surge in dangerous goods detected in mail items) or a shortfall in NCSC staff. During the redeployment period, the posts concerned continued to be accounted for in the establishment of the divisions/sections to which the redeployed staff belonged.

Annex E

Number of Non-civil Service Contract Staff in the Mail Distribution Division and the Air Mail Centre

Financial Year (as at the end of the financial year)	Mail Distribution Division						Air Mail Centre of International Mail Division					
	(a) No. of NCSC positions	(b) No. of NCSC staff	(c) No. of vacancies	(d) Vacancy rate (%) (c)/(a)	(e) Wastage	(f) Wastage rate (%) (e)/(a)	(g) No. of NCSC positions	(h) No. of NCSC staff	(i) No. of vacancies	(j) Vacancy rate (%) (i)/(g)	(k) Wastage	(l) Wastage rate (%) (k)/(g)
2010-11	609#	593	16#	2.6%	38	6.2%	217#	205	12#	5.5%	54	24.9%
2011-12	597#	588	9#	1.5%	57	9.5%	242#	231	11#	4.5%	72	29.8%
2012-13	601#	563	38#	6.3%	96	16.0%	289#	264	25#	8.7%	60	20.8%
2013-14	592	573	19	3.2%	75	12.7%	290	273	17	5.9%	95	32.8%
2014-15	663	643	20	3.0%	92	13.9%	263	235	28	10.6%	69	26.2%
2015-16 (up to 9.12.2015)	641	608	33	5.1%	77	12.0%	275	252	23	8.4%	26	9.5%

Detailed records for recruitment exercises conducted before 2014 were disposed of upon completion of these exercises. Based on available records on the department-wide NCSC vacancy position, we have estimated the respective numbers of vacancies in MDD and AMC.

**Wastage Rates of the Postal Officer Grade and the Postman Grade in Hongkong Post
from 2010-11 to 2014-15**

Grade	Establishment as at 31.3.2011	Wastage in 2010-11	Wastage Rate	Establishment as at 31.3.2012	Wastage in 2011-12	Wastage Rate	Establishment as at 31.3.2013	Wastage in 2012-13	Wastage Rate	Establishment as at 31.3.2014	Wastage in 2013- 14	Wastage Rate	Establishment as at 31.3.2015	Wastage in 2014-15	Wastage Rate
Postal Officer Grade	1,704	70	4.11%	1,695	84	4.96%	1,712	73	4.26%	1,733	82	4.73%	1,719	101	5.88%
Postman Grade	3,318	102	3.07%	3,337	144	4.32%	3,336	121	3.63%	3,341	128	3.83%	3,329	157	4.72%

Annex B

**Extract from the Hong Kong Planning Standards and Guidelines :
Provision of Post Offices**

Chapter 1, Section 5:

- 5.2 The planning standards and guidelines should be applied with a degree of flexibility, having regard to land use demands, local conditions, development constraints and resource availability. They should not be applied in isolation and cross-reference between standards and guidelines should be made, whenever necessary.

Chapter 3, Section 11:**11. Post Offices****11.1 Standards**

- 11.1.1 As a general guide, post offices should be provided so that large groups of population in urban areas should have access to facilities within 1.2km from where they reside or work. For rural areas a distance of 3.2km should be assumed. Other factors to be considered include population in proposed catchment areas; the nature of the terrain over which customers must travel; physical features such as busy main roads and railway lines etc.; the existence of any special social or postal need, and whether the location is being considered as a focal point at which most of the day-to-day needs of the community will be provided. The provision of post office is subject to the advice of the Postmaster General.

11.2 Locational Factors

- 11.2.1 Individual sites may, on occasions, be required for postal needs but generally post offices can be incorporated in private and/or government buildings which are centrally located relative to the area served.
- 11.2.2 All post offices need direct vehicular access and therefore should preferably be located at street level. Offices which have a mail delivery facility should be located near a focal point of public transport, and be provided with facilities for off-street parking for vehicles used in collection and delivery work.
- 11.2.3 The large urban offices require a separate compound for loading and unloading of mail vans in secure conditions.
- 11.2.4 Post office premises must always be completely self-contained with no access to non-postal accommodation through any part of the postal areas.

Table 4 : Community Facilities – Summary of Standards (under Section 14.1 of Chapter 3):

Facility	Standard	Land or Floor Area Requirement	Area Served
(48) Post Offices	<p>(a) In urban areas, post offices should be provided so that large concentrations of population have access to facilities within 1.2km from where they live or work.</p> <p>(b) In rural areas, a distance of 3.2 km should be assumed.</p> <p>(c) The provision is to be advised by the Postmaster General.</p>	@	local

Notes : @ There is no specific site allocation required because the facility is normally provided in a composite building, the land requirement for which is included under other types of development.

Annex A

**Reasons for low utilisation of 15 vehicles in Hongkong Post
in 2014-15**

Vehicle type	Vehicle	Utilisation rate	Reasons for low utilisation
Small estate car	1	28%	<ul style="list-style-type: none"> • This vehicle served as an inspection car for the management team. Its utilisation rate fluctuated depending on the inspection schedule of the management team. • As an electric vehicle, this vehicle was generally used on shorter journeys only to ensure a sufficient power supply.
	2	38%	<ul style="list-style-type: none"> • Serving as a reserve car¹ in the Central Mail Centre (CMC) pool until 9 January 2015, this vehicle provided support when the regular fleet was under maintenance so as to avoid service disruption. Given the nature of reserve vehicles, their usage tends to fluctuate. • This car was deployed to Shau Kei Wan Delivery Office from 10 January 2015. Taking account of the indoor preparation time and rest breaks of a delivery postman on a normal working day, the normal serviceable duration of the vehicle was 5.5 hours a day, instead of 9 hours under the prevailing formula for calculating the vehicle utilisation rate.
	3	43%	<ul style="list-style-type: none"> • Serving as a reserve car¹ in the CMC pool until 22 September 2014, this vehicle provided support when the regular fleet was under maintenance so as to avoid service disruption. Given the nature of reserve vehicles, their usage tends to fluctuate. • As an electric vehicle, this vehicle was generally used for shorter journeys only to ensure a sufficient power supply. • From 23 September 2014, the vehicle was deployed to support a motorised delivery beat in Aberdeen Delivery Office. The normal serviceable duration of the vehicle was 5.5 hours a day, instead of 9 hours under the prevailing formula for calculating the vehicle utilisation rate. • The delivery postman for this beat took 32.5 days of vacation and sick leave from 23 September 2014 to 31 March 2015, and no substitute postman driver was available to cover the absence.

¹ As at 31 March 2015, HKP had 92 small estate cars, 77 of which were deployed to support motorised delivery beats in delivery offices and 15 were allocated to the car pool in CMC to serve as reserve cars (e.g. to cover regular vehicles when they are under maintenance) in order to maintain uninterrupted service provision.

Reasons for low utilisation of 15 vehicles in Hongkong Post in 2014-15

Vehicle type	Vehicle	Utilisation rate	Reasons for low utilisation
	4	47%	<ul style="list-style-type: none"> The vehicle was deployed to support a motorised delivery beat in Aberdeen Delivery Office. The normal serviceable duration of the vehicle was 5.5 hours a day, instead of 9 hours under the prevailing formula for calculating the vehicle utilisation rate.
	5	48%	<ul style="list-style-type: none"> This vehicle served as a reserve car in the CMC pool to provide support when the regular fleet was under maintenance so as to avoid service disruption. Given the nature of reserve vehicles, their usage tends to fluctuate.
	6	50%	<ul style="list-style-type: none"> The vehicle was deployed to support a motorised delivery beat in Aberdeen Delivery Office. The normal serviceable duration of the vehicle was 5.5 hours a day, instead of 9 hours under the prevailing formula for calculating the vehicle utilisation rate.
Large van	7	36%	<ul style="list-style-type: none"> This vehicle was deployed to Tsuen Wan Delivery Office for pouch feeding in the morning and other ad hoc operational tasks in the afternoon. To optimise its utilisation, we will redeploy it to the Speedpost Operations Centre at the General Post Office in the first quarter of 2016 and arrange a hired vehicle to take up the pouch feeding duty Tsuen Wan Delivery Office.
	8	37%	<ul style="list-style-type: none"> This vehicle was deployed to Tsim Sha Tsui Delivery Office for pouch feeding in the morning and other ad hoc operational tasks in the afternoon. To optimise its utilisation, we will redeploy it to Kowloon Central Delivery Office in the first quarter of 2016 and arrange a hired vehicle to take up the pouch feeding duty in Tsim Sha Tsui Delivery Office.
	9	43%	<ul style="list-style-type: none"> This vehicle served as a reserve vehicle² when other regular large vans were under maintenance. It is an aged vehicle and is scheduled for disposal without replacement.

² At 31 March 2015, there were 93 large vans in HKP, 30 of which supported mail collection from street posting boxes and conveyance of mail between post offices and mail processing centres while 59 were deployed to various operational units, mainly for feeding mail pouches, collection and delivery of Speedpost items, etc. The remaining 4 were allocated to the car pool in CMC to serve as reserve cars in order to maintain uninterrupted service provision.

Reasons for low utilisation of 15 vehicles in Hongkong Post in 2014-15

Vehicle type	Vehicle	Utilisation rate	Reasons for low utilisation
	10	49%	<ul style="list-style-type: none"> This vehicle had already passed its serviceable lifespan and should have been disposed of in 2013. Pending disposal, it served as a reserve vehicle.
Light truck	11	35%	<ul style="list-style-type: none"> The low utilisation of the vehicle was due to a temporary shortage of Postman Drivers at the CMC³.
	12	39%	<ul style="list-style-type: none"> This vehicle was deployed for miscellaneous mail conveyance duty. It also served as a reserve vehicle to support other light trucks when they were under maintenance. The low utilisation of the vehicle was mainly due to a temporary shortage of Postman Drivers at the CMC³.
	13	50%	<ul style="list-style-type: none"> The low utilisation of this vehicle was due to a temporary shortage of Postman Drivers at the CMC³.
	14	50%	<ul style="list-style-type: none"> The low utilisation of this vehicle was due to a temporary shortage of Postman Drivers at the CMC³.
Medium truck	15	34%	<ul style="list-style-type: none"> The low utilisation of this vehicle was due to a temporary shortage of Postman Drivers at the CMC³.

³ The utilisation of these vehicles was temporarily affected as some of the Postman Driver posts in CMC had fallen vacant due to the retirement/promotion of the incumbent drivers.

Annex B

**Progress on utilisation of the 46 work stations
on the fifth floor of the Central Mail Centre (CMC)**

Item	Planned utilisation as reported in paragraph 5.11 of the Director of Audit's Report No. 65	Updated status
(a)	<ul style="list-style-type: none"> 14 work stations were intended for use by record staff of various operation units of the CMC and some supervisory staff. 2 work stations are reserved for vacant posts currently under review. 	<ul style="list-style-type: none"> 4 work stations were taken up in December 2015. 10 work stations originally planned for use by record staff will be assigned to staff of the expanded Productivity Service Section (PSS) from February 2016 for taking forward the review on standard time for workload assessment for delivery postmen and for conducting beat surveys. 2 work stations are reserved for vacant posts which are subject to review.
(b)	<ul style="list-style-type: none"> 8 work stations would be taken up by staff of the Information System Services Division (ISSD) by December 2015. 2 work stations were taken up by the staff of the Management Services Division (MSD). 6 work stations were reserved for use by staff of other Divisions who needed to work at the CMC from time to time. 	<ul style="list-style-type: none"> 2 work stations were taken up by ISSD staff in December 2015 while the remaining 6 work stations are expected to be taken up by new ISSD recruits subject to successful completion of the ongoing recruitment exercise. 2 work stations continue to be taken up by MSD staff. 4 of the 6 reserved work stations will be assigned to staff of the expanded PSS from February 2016 and the remaining 2 stations will continue to be reserved by staff of other Divisions who need to work at the CMC from time to time.
(c)	<ul style="list-style-type: none"> 5 work stations were reserved for handling extra mail items during seasonal peaks. 	<ul style="list-style-type: none"> 5 work stations continue to be reserved for handling extra mail items during seasonal peaks.

Item	Planned utilisation as reported in paragraph 5.11 of the Director of Audit's Report No. 65	Updated status
(d)	<ul style="list-style-type: none"> 5 work stations were intended to meet the future growth. 	<ul style="list-style-type: none"> 5 work stations will be assigned to staff of the expanded PSS from February 2016.
(e)	<ul style="list-style-type: none"> 4 work stations were reserved for the project team of the reprovisioning of the General Post Office (GPO) Building 	<ul style="list-style-type: none"> 4 work stations continue to be reserved for the project team of the reprovisioning of the GPO Building

Your ref. : CB4/PAC/R65

Our ref. : (31) in FEHD C&C/31-95/5/1 C

(Translation)

6 January 2016

Mr Anthony CHU
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr CHU,

Public Accounts Committee

**Chapter 4 of the Director of Audit's Report No. 65
Burial and cremation services**

**Cancellation of public hearing on 12 January 2016
Written questions for reply**

Thank you for your letter dated 23 December 2015.

In response to the list of questions attached in your above-quoted letter, we would like to provide information at Annex to facilitate the Public Accounts Committee's consideration of the captioned report.

Yours sincerely,



(LAI Chun-kwong)

for Director of Food and Environmental Hygiene

c.c. Secretary for Food and Health (Fax No.: 2869 4376)
Secretary for Financial Services and the Treasury (Fax No.: 2147 5239)
Director of Audit (Fax No.: 2583 9063)

Chapter 4 of the Director of Audit's Report No. 65
Burial and Cremation Services
Questions Asked and Information Requested

1. Paragraphs 2.10 to 2.12 of the Report

What are the difficulties encountered in the implementation of the District-based Columbarium Development Scheme? What measures will be taken by the Government to step up and expedite the implementation of the scheme?

Generally speaking, to pursue a columbarium project, the Government has to conduct various preliminary studies and assessments on the proposed site (such as Technical Feasibility Study, Traffic Impact Assessment or even Engineering Feasibility Study) having regard to the scale of development (i.e. the number of niches to be provided) as well as the complexity and possible constraints of the project. These studies take time to complete. Depending on the results of the studies, the Government will consult the relevant District Council (DC) and take follow up actions to address members' comments and concerns. Where members of the DC require more detailed information or have alternative proposals on the columbarium project, the Government has to prepare additional information on the project for further deliberation by members of the DC. In some cases, the Government may need to conduct further technical studies or even make amendments to the proposal to address their comments/concerns. In some complex cases, several rounds of local consultation may be needed to secure the DC's support for the project. With the support of the DC, we will proceed with the established procedures, including consulting the relevant LegCo Panel and seeking funding approval by LegCo Public Works Subcommittee and Finance Committee for the construction of the columbarium.

Indeed, we have met many challenges in taking forward columbarium projects in individual districts, including those relating to topography, compatibility with adjacent land uses, supporting infrastructure as well as traffic and environmental impacts. Moreover, some members of the public still regard columbarium as one of the "not-in-my-backyard facilities", and have reservations about the construction of a columbarium in the vicinity of the area in which they reside.

In planning for the construction of a columbarium, we have to determine the priority of the development taking into account various factors such as the limitations in resources and manpower, the views of district personalities, the number of niches to be provided, the constraints on the development of the site, etc. Besides, we have to ensure value-for-money in order to optimise the use of the resources. We will continue to adopt a pragmatic approach in securing the DCs' support for the columbarium projects. Relevant policy bureaux and departments will strive to increase the supply of public niches. They will work closely together to solve various technical difficulties. They will also do their best to address the comments of local residents and members of DCs and mitigate their concerns (such as those over the possible impact of the projects on the local traffic conditions, etc.). We have to appeal to the understanding of the public and DCs about the genuine need for all the districts to share the responsibility for supporting the implementation of these projects to meet the needs for niches of the Hong Kong community.

2. Paragraph 3.10 of the Report

Please advise whether the Government has considered more efficient and time-saving investigation/handling methods for integrating the 30 000 (27%) vacant urn burial spaces scattered among 59 burial sections in order to release land for construction of more niches. If yes, please give details. If not, what are the reasons?

Integration of the vacant urn burial spaces scattered among various burial sections will inevitably involve the removal of a large number of urns in use, which is very likely to encounter opposition from the descendants of the deceased. Also, the Government needs to consider the issues of proper allocation of the vacant urn burial spaces and the removal arrangements while upholding the principle of fairness. Whether the released land is suitable for construction of columbarium still depends on the results of geotechnical investigation and traffic impact assessment.

Food and Environmental Hygiene Department (FEHD) will continue to monitor the utilisation of urn burial spaces and undertake studies on using vacant urn burial grounds for construction of niches where technically feasible.

3. Paragraph 3.13 of the Report

The Food and Environmental Hygiene Department (FEHD) commissioned contractors to conduct a series of on-site surveys of all urn graves in public cemeteries from 2005 to 2014 by phases. Why did the on-site surveys take as long as ten years to complete? Will FEHD report to the relevant LegCo Panel on the findings of the surveys and the latest progress of its efforts to deal with the mismatch cases?

Given the large number of urn burial spaces involved (as many as 190 000 spaces), it was a complicated and time-consuming task for the contractors and the Department to conduct the on-site surveys and internal verifications respectively. Therefore, the whole process had to be completed in phases. It is expected that the work concerned will be completed in the first quarter of this year. Then, we will consider whether it is necessary to report to the relevant LegCo Panel on the findings of the surveys. We have to take into account the traditional Chinese concept of enjoying lasting peace after burial and avoid causing unnecessary distress to the descendants of the deceased. Given that the majority of the mismatch cases were a historical problem which dated back to decades ago, we will only follow up on these cases with the descendants of the deceased to rectify the inconsistencies in the names of the deceased as appeared on the graves and in official records as and when the descendants of the deceased come forward to apply for exhumation of the remains of the deceased or for grave repairs. Since the majority of these mismatch cases merely involved discrepancies between the full names of the deceased on the headstones and in the file records and it is not uncommon for the older generations of Chinese to have more than one name, we consider these follow-up arrangements to be pragmatic and sensible. Until now, the amendment of records has not been a common concern to the bereaved families. As such, the Department does not have plan in the near future to report to the relevant LegCo Panel on the latest progress of the handling of the mismatch cases.

4. Paragraph 3.14 of the Report - Table 3: Mismatch cases of urn graves

According to the results of the full-scale survey of urn graves, among the 5 cemeteries surveyed, the percentage of mismatch cases found in Diamond Hill Cemetery was substantially higher than the other 4 cemeteries, with nearly 40% of its urn graves not matching records. What are the reasons for the high mismatch rate?

The results of the survey conducted at Diamond Hill Urn Cemetery remain to be verified. Of the 5 cemeteries surveyed, Diamond Hill Urn Cemetery is the oldest and its urn graves have existed since the 1940s. The urn graves were not arranged in order during those days. This is believed to be the reason for the relatively high percentage of mismatch cases found in the cemetery. Preliminary survey results showed that for the majority of mismatch cases, the headstones were either dilapidated or damaged, which led to the surnames/names of the deceased being missing or illegible.

5. Paragraph 3.16 of the Report - Need to review the overall progress

Of the 20 162 verified mismatch cases, follow-up actions were completed for only 1 455 cases (7%). If the Department continues to adopt the “responsive” approach (follow-up investigations will only be conducted if and when exhumation applications were received), how many years will it take for the Department to rectify/handle all cases where information on the headstones does not match the official records?

In addition, of the 1 455 completed cases, what are the respective numbers of cases attributed to illegal burials, inaccurate data input and failure in the past to update official records? What are the follow-up actions on cases relating to suspected illegal burials?

Will FEHD consider changing its “responsive” approach in order to accelerate the verification process?

The majority of the urn graves involved in the mismatch cases dated back to the 1940s or 1950s. As mentioned above, to avoid causing unnecessary distress to the descendants of the deceased, with due regard to the traditional Chinese concept of enjoying lasting peace after burial, the current approach adopted by FEHD is to rectify these mismatch cases as and when the descendants of the deceased come forward to submit applications to FEHD for exhumation of the remains of the deceased or for grave repairs. We consider that the effectiveness of our work should not be assessed only by the number of cases with follow-up actions completed. The Department’s current approach is pragmatic and sensible.

All 1 455 cases where follow-up actions were completed concerned with inconsistencies in information shown on headstones and contained in official records.

Correction of data had to be made. There is no sign or evidence showing that any of the cases was related to illegal burial.

6. Paragraphs 3.21 to 3.23 of the Report - Cremation services

Regarding the performance pledge on 15-day booking of cremation services, has projection been made on how much booking time can be reduced after the completion of a series of works projects for reprovisioning of crematoria at a total capital cost of \$1,860 million. If yes, what are the details?

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". In other words, the general public may choose to book any available cremation sessions within the next 15 days from the day of application. In 2014, the daily average number of cremations was 113. The number of cremation sessions available for daily booking has been 130 to 140 sessions since December 2015 when the reprovisioning works at Cape Collinson Crematorium (Phase II) was completed. It represents an increase of about 20% in the provision of cremation sessions. If the 15-day booking period is shortened, the days that can be chosen by bereaved families will be reduced and their funeral arrangement planning will also be affected.

7. Paragraphs 3.24 to 3.27 - Promoting the use of eco-coffins

- (a) What policies and measures will FEHD adopt to encourage the general public to use eco-coffins?**
- (b) Among the 41 244 cremations of dead bodies in 2014, excluding the cases of cremation of unclaimed bodies, there were only 387 (or 1%) cases of using eco-coffins by the general public. Was it due to the ineffectiveness of the promotion efforts by FEHD and the absence of incentives?**
- (c) Has consideration been given to the incentives recommended by the Audit Commission (Audit) in promoting the use of eco-coffins by the general public, such as priorities in booking cremation sessions and concessions in cremation charges? If yes, what are the details?**

FEHD has all along encouraged the public to use eco-coffins. To ensure that the licensed undertakers of burial provide eco-coffins as an option for consideration by

bereaved families, when issuing an undertaker's licence, FEHD imposes the licensing condition that the licensed undertaker is required to offer eco-coffins as an option for sale to customers. Regarding the promotion efforts, aside from the website of FEHD, the Department has also produced publicity leaflets and pamphlets for distribution at our offices and relevant public sector organisations. FEHD will continue its efforts to promote the use of eco-coffins, but whether to use these coffins will be up to the families of the deceased.

The recommendation of giving priorities in booking cremation sessions and concessions in cremation charges to those who choose to use eco-coffins will inevitably affect the right of others to apply for cremation service. Its implementation is complex and sensitive and wide public support is needed. At present, we have no plan to implement such measures.

8. Utilisation of public niches

Potential supply of urn spaces in allocated niches

Paragraph 3.31(a): Regarding the inclusion of “any deceased persons with close relationship with the deceased whose ashes were first placed in the niche”, what does “close relationship” refer to? Is there an explanatory note given on the application forms for placing additional urns, cremation, new niche allocation, used niche allocation, and temporary storage of ashes etc. so that the general public will understand the Department's policy of promoting the placing of additional urns in existing niches?

The deceased for whom the application for placing an additional urn is made must be a close relative (e.g. a spouse, child etc.) of the deceased whose ashes were first deposited in the niche or there must be a close relation between them during their lifetime. There is no single definition for “close relationship” that applies to all cases. It depends on the circumstances and the proof provided by the applicants for consideration. Examples in this regard include wives and concubines under the marriage system in the past, adoptive father and adopted son, cohabiting couples and so on. Information regarding the eligibility criteria for placing additional urns has been provided on the application forms for new niche allocation and used niche allocation for the consideration of applicants.

9. Utilisation of public niches

Paragraph 3.37: Audit recommended that FEHD should waive the service fee of \$140 so as to promote the placing of additional urns in existing niches. Has the Department studied this recommendation? If yes, what are the details?

The service fee of \$140 for placing an additional urn only accounts for a small portion of the expenses for funeral arrangements. We consider that the waiving of such a fee will not do much to promote the placing of additional urns in niches and there is no plan to waive the fee for the time being.

10. Co-burial of ashes in urn graves

Paragraph 3.38: FEHD charges a fee of \$6,305 for the service of co-burial of ashes in urn graves, which is equivalent to the fee for a new urn grave. A question is raised on its basis and reasonableness. How is the level of this fee determined? Audit has pointed out that there is a need to review if the high fee defeats the object of the policy of promoting co-burial of ashes in urn graves. Is there any room for downward adjustment of the fee or can it be waived?

11. Co-burial of ashes in urn graves

Paragraph 3.38: 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. Has the Department conducted a review to see if such low co-burial percentage results from a lack of promotion or the high fee for co-burial? Will the Department consider revising its policy?

FEHD charges a fee of \$6,305 for co-burial of skeletal remains or cremated ashes in urn graves, which is equivalent to the fee for a new urn grave. There is no time limit set for the use of urn grave space and occupation of the land space is permanent. In the long run, co-burial of cremated ashes in urn graves is not a sustainable means of ash disposal as it is not in line with the principle of efficient use of land resources. Given that some members of the public still wish to have cremated ashes co-buried in allocated urn graves, FEHD currently allows the public to apply for co-burial but does not encourage them to do so.

12. Temporary storage of cremated ashes

Paragraphs 3.39-3.41: Since commencement of the service of temporary storage of cremated ashes in October 2011, the utilisation of the service has been low and up to March 2015, there were only 222 cases of using the service. However, as at May 2014, there were as many as 17 600 sets of ashes stored at the premises of undertakers of burials.

Audit pointed out that FEHD might not have adequately promoted its temporary storage service and the public were not aware of the service provided by the Department. It recommended that FEHD should more actively promote its temporary storage service. Has the Department studied why the public prefer paying several thousand dollars a month to have the ashes stored at the premises of private undertakers of burials to paying \$80 a month for the temporary storage service provided by the Department? Is it because the Department has not done its best to promote the service?

Has the Department stepped up its promotion efforts having regard to Audit's recommendation and set any performance indicators to assess the effectiveness of its promotion policy? If yes, what are the details?

FEHD will step up publicity on the service of temporary storage of cremated ashes so that members of the public in need can make informed choices. For example, it will promote the service on its website, publish pamphlets and give information on the service on relevant application forms. Whether to use such a service is up to the families of the deceased. Many members of the public choose to entrust undertakers of burials to arrange one-stop after-death services such as booking of cremation session, holding of funeral ceremony and temporary storage of ashes, etc. The Government has taken measures to allow undertakers of burials in Hung Hom to arrange for their customers to burn paper offerings in the burner at a nearby funeral parlour on certain days (such as during the Ching Ming and Chung Yeung Festivals) so as to minimise the nuisance caused to the neighbourhood. The public can choose the temporary storage services offered by the public or private sectors to meet their demand for temporary storage of ashes. That is a matter of personal choice and preference.

13. Shortage in short-term supply of private niches

Paragraph 4.15: There will be no supply of public niches from 2016 to 2018 while the supply of private niches will be temporarily suspended after the commencement of the licensing scheme for regulating private columbaria. Thus, the community's ongoing demand for niches cannot be met.

What policy will the Department implement to avoid shortage of niches during the said period? What measures will it take to facilitate private columbaria to apply for licences under the licensing scheme? Also, the Department has indicated that it will promulgate guidelines and information relating to licence application in its website and other media. What are the details?

During the period from mid-2016 to 2018, there are still public niches available for allocation, including 855 niches in Wan Chai project by FEHD, and 24 924 niches from the Board of Management of the Chinese Permanent Cemeteries in Eastern and Southern Districts that have yet to be allocated. In addition, the Tsang Tsui Columbarium in Tuen Mun, which is expected to provide about 160 000 niches, will be completed in 2019. The Department will launch publicity, receive applications and allocate the niches in due course so that successful applicants can deposit their ancestors' cremated ashes into the allocated niches as soon as the new columbarium is completed.

To address the shortage in short-term supply of niches from public projects, we will step up efforts to promote the placing of additional cremated ashes in existing public niches, the scattering of ashes at Gardens of Remembrance and at sea, and the Internet Memorial Service. Furthermore, a temporary storage service for cremains in bags is provided in the concerned crematorium for 2 months free of charge upon completion of the cremation service. If the temporary storage service is still needed upon expiry, the applicant may apply for cremains transfer service to keep cremains in temporary storage facility at Kwai Chung Crematorium. The storage period, which is extendable, is either 3, 6 or 12 months at a monthly charge of \$80. As the service is on a temporary basis, no paying of tribute will be arranged on-site during the storage period.

We aim to work closely with the Bills Committee in the hope that the Private Columbaria Bill can be enacted by July 2016. By that time, FEHD will put in place

a mechanism to facilitate coordination with other concerned departments to ensure that individual applications for various specified instruments (i.e. Private Columbarium Licence, Exemption and Temporary Suspension of Liability) under the new legislation are handled in a timely manner. FEHD will promulgate relevant application guide and information in its website and other media and arrange briefing sessions to facilitate applications for various specified instruments under the Private Columbaria Ordinance.

14. Regulation of undertakers of burials

Paragraph 4.21: To prevent the service of temporary storage of ashes provided by an undertaker from becoming a columbarium operation, it is Audit's view that FEHD needs to consider imposing an additional licensing requirement on the time limit for temporary storage. However, according to the response from the Government, "when to do so and the precise requirements should take into account the practical corollary of the need to handle displaced ashes." (paragraph 4.28) Will the Department set a specific date for imposing an additional licensing requirement on the time limit for temporary storage and provide the relevant details in order to eliminate any irregularities?

For undertaker's licences issued by FEHD after December 2008, there are express provisions prohibiting the storage of human ashes in the premises of the undertakers. The 81 undertakers who hold licences issued before that date are exempted from such provisions. To enhance regulation of their operation, FEHD will impose additional licensing requirements and conditions on them in due course, which include stipulations that the number of sets of ashes temporarily stored cannot exceed the ceiling imposed by FEHD and no salvation rituals/funeral rituals or burning of joss paper and incense causing nuisance to the neighbourhood are allowed inside the premises at all times, etc.

FEHD agrees in principle that there is a need to impose an additional licensing condition limiting the duration of time for which cremated ashes may be temporarily stored. However, when deciding when best such requirements may be brought in and the precise requirements, we must take into account the current supply of niches and the community's demand for temporary storage of ashes. We will closely monitor the situation and impose such requirements at an appropriate time.

- 15. It was earlier reported that weaknesses had been found in FEHD's Online Cremation Booking Service system. Cremation sessions could be easily taken up. Since the current Audit Report has not mentioned or reviewed the service, will the Department promptly conduct a review and fix the problem? If yes, what is the progress? If not, what are the reasons?**

Since the introduction of the Online Cremation Booking Service in June 2013, FEHD has maintained liaison with the Funeral Business Association and exchanged views on how to enhance the service. The Department met with the Funeral Business Association in November and December last year to discuss how to optimise the booking system. Consensus was reached on the increase of cremation sessions. FEHD monitors the system on a daily basis and promptly handles any irregularities detected. It also constantly improves the operation procedures and further optimises the booking system to ensure its smooth operation. At present, the Online Cremation Booking Service system functions well.

Audit Report No. 65

Chapter 6 – Efforts of the Narcotics Division and Beat Drugs Fund in combating drug abuse

This note sets out the Government's response to the issues raised by the Public Accounts Committee arising from Chapter 6 of the Audit Report No. 65 (Audit Report) on the efforts of the Narcotics Division (ND) and Beat Drugs Fund (BDF) in combating drug abuse.

Hidden Drug Abuse Problem

2. According to the latest statistics of the Central Registry of Drug Abuse (CRDA), the total number of reported drug abusers has continued to decline between 2008 and 2014, recording a decline of 37% in six years, from 14 241 to 8 926, with a more phenomenal decline in young drug abusers aged 21 or below by 77%, from 3 474 to 800. This reflects that the strategy and measures in tackling the problem of youth drug abuse has borne fruit. At the same time, a newly emerging trend of hidden drug abuse has been observed, as reflected in the increase in the median drug history of newly reported abusers (i.e. the time for abusers to be discovered by CRDA reporting agencies from their first drug abuse) from 1.9 years in 2008 to 5.2 years in 2014.

3. Psychotropic substances such as ketamine, cocaine and methamphetamine (also known as “ice”) have in recent years become more prevalent than traditional drugs (mainly heroin) in Hong Kong, especially amongst young people. In 2014, 96% of young drug abusers took psychotropic substances. This has given rise to the worsening situation of hidden drug abuse. Unlike traditional drugs, psychotropic substances do not lead to immediate withdrawal symptoms. Many are consumed in an inconspicuous manner, e.g. by snorting or swallowing, without any paraphernalia, hence making it more difficult to detect those with drug problems. Moreover, many drug abusers perceive that drug taking is a matter of personal choice and usually have low motivation to seek help, adding to the difficulty in identification. These have posed new challenges to anti-drug work.

4. The Government adopts a five-pronged strategy¹ in tackling the drug problem in light of the complexity of the issues concerned. Such efforts will continue. In particular, having regard to the growing problem of hidden drug abuse, there would continue to be measures to promote and facilitate early identification of hidden drug abusers to enable intervention in a timely manner, e.g. there are the 24-hour anti-drug telephone service “186 186” and trial instant messaging service “98 186 186” for providing professional support to people in need. The BDF has also rolled out the Anti-drug Community Awareness Building Programme (ACABP) to promote awareness on drug abuse among members of the community, parents and frontline workers. In combating the drug abuse problem, ND also monitors closely developments in international fora, including meetings of the United Nations Commission on Narcotics Drugs, to keep abreast of the evolving drug scene internationally and determine priorities in bringing new substances under control. In addition, the Action Committee Against Narcotics (ACAN) has also invited a team from Sweden to visit Hong Kong in January 2016 to share with stakeholders their experience in drug testing, but the Swedish experience is intrinsically different from voluntary drug testing in schools.

5. The ND will continue to formulate suitable programmes in consultation and collaboration with the ACAN, as well as relevant government departments, community partners and non-government organizations (NGOs).

Drug-related Statistics

6. ND adopts an evidence-based approach in the formulation of anti-drug policies and programmes. Drug-related statistics form an integral part of the process. Specifically, the CRDA is set up to provide relevant drug abuse statistics for monitoring changes in drug abuse trends and characteristics of drug abusers. The CRDA is a voluntary reporting system which records details of drug abusers who have come into contact with and have been reported by reporting agencies. ND attaches great importance to ensuring the comprehensiveness of such data. We understand that some reporting agencies, such as tertiary education institutions and private hospitals, may not have frequent encounters with drug abusers and might therefore only need to report to the CRDA

¹ The five-pronged anti-drug strategy includes “preventive education and publicity”, “treatment and rehabilitation”, “legislation and enforcement”, “external cooperation” and “research”.

occasionally. In any event, the ND, as part of its on-going efforts, encourages timely and accurate reporting to the CRDA by agencies, including organizing briefings for them to promote reporting and understanding of the system, as well as appealing for continuous support for the system. ND will continue to step up such measures by engaging in more focused dialogue with different reporting agencies to address their concerns.

7. Apart from the CRDA, arrangement has also been made to collect data on the drug abuse population in Hong Kong through other means. For instance, ND conducts triennial large-scale student surveys to keep track of the drug abuse situation among students of upper primary to post-secondary level in Hong Kong. In the last survey for 2011/12, some 156 000 full-time students from 237 schools / institutions were sampled, representing about 20% of the target student population. The current survey for 2014/15 is in the pipeline. In addition, the BDF has also been supporting researches in understanding more about the drug trend. A recent example is a research conducted by the Centre for Suicide Research and Prevention of the University of Hong Kong, which commenced in June 2015, for estimating, amongst others, the total drug population in Hong Kong.

8. In addition to surveys and researches, the ND has also looked into other drug-related data such as the admission statistics of drug treatment and rehabilitation service agencies, and drug-related enforcement figures. Together, these different sources of data have allowed us to have a more comprehensive picture of the latest drug abuse situation in Hong Kong, and facilitated the formulation of anti-drug policy and allocation of resources for suitable anti-drug initiatives.

Healthy School Programme with a Drug Testing Component (HSP(DT))

9. The Government has since the 2011/12 school year promoted the HSP(DT) throughout the territory after the successful trial scheme in the Tai Po District in the previous two school years. An independent evaluation research has been commissioned in the 2015/16 school year to assess the overall effectiveness of the HSP(DT), and will make recommendations on revisions and/or refinement to the programme, where appropriate.

10. The HSP(DT) is a school-based programme comprising preventive education activities and voluntary school drug testing. It aims at helping students develop a healthy lifestyle and positive life attitudes, enhancing their resolve to resist drugs and fostering an anti-drug culture on the school campus.

11. In light of the voluntary nature of the drug testing element, students' consent rates inevitably vary in different schools. Experience shows that it takes time for students and parents to be familiar with the objectives and administration of drug testing, but the proportion of students participating in school drug testing would in general pick up gradually as the schools continue to implement the programme.

12. The ND will continue to monitor the implementation of school drug testing and render appropriate assistance to schools and NGOs in encouraging students and parents to give consent to participating in school drug testing. Amongst others, we would consider inviting participating schools and NGOs with higher consent rates to share their good practices in experience sharing sessions. As mentioned in paragraph 9 above, we have commissioned an independent evaluation research on the experience of implementing the HSP(DT) after four school years. The study would cover stakeholders' views on school drug testing, amongst others, and will, where appropriate, make recommendations on ways to promote consent rates.

13. Over the previous years, the number of participating schools has grown from 43 (2011/12) to 92 (2015/16). The steady extension of the programme reflects that the existing promotional strategies are bearing fruit. We envisage more schools to apply to join the HSP(DT) in the coming school year, and will continue to actively promote the programme through multiple stakeholder engagement, including members of school sponsoring bodies, school principals and staff, and/or relevant organizations and personnel.

BDF

Utilization of BDF Resources

14. The BDF is set up to provide financial support for worthwhile anti-drug projects which meet the specified funding criteria under the aspects of preventive education and publicity, treatment and rehabilitation, and research. Specifically, when the community was faced

with the youth drug abuse problem, a capital injection of \$3 billion was made in 2010 to better equip the BDF to meet the funding needs for various anti-drug initiatives and programmes, with two funding exercises launched in 2010 under the Regular Funding Scheme which was then the primary source of financial support for community-wide anti-drug campaigns.

15. Taking into account the evolving drug trend, the BDF has launched in recent years certain specific funding schemes. For instance, building on the successful experience of the trial scheme in the Tai Po District, a more focused approach has been taken in promoting a drug-free culture on the school campus through the implementation of HSP(DT), also funded by the BDF. As a means to tackle the problem of hidden drug abuse, the BDF also rolled out the ACABP on a trial basis in 2013 to raise the drug awareness of members of the community, parents and frontline workers. These new programmes were designed to enable a more targeted approach in anti-drug preventive education and publicity.

16. Together, the four separate funding schemes, namely Regular Funding Scheme, Special Funding Scheme for Drug Dependent Persons Treatment and Rehabilitation Centres, HSP(DT), and ACABP, have now enabled the BDF to support different facets of the anti-drug programmes and initiatives in a more comprehensive manner. While paragraph 3.12 of the Audit Report observed a decline in the number of applications under the Regular Funding Scheme between 2010 to 2014, it has also acknowledged that the approved amount of funds for each funding exercise carried out during this period was comparable to each other.

17. In practice, the ND has been taking active steps to promote applications by different community stakeholders, including partners in the anti-drug, medical and academic sectors, to put forward quality and worthy applications under various priority areas addressing the prevailing needs of the changing drug scene. These include conscious efforts to maintain a close dialogue with stakeholders and undertaking surveys and studies on an on-going basis. To facilitate prospective applicants to plan for their work, we have in recent regular funding exercises promulgated clear indications of the time frame for processing funding applications and released the timetable for the upcoming funding exercise when we invite funding applications. Such efforts have enabled us to continue to widen the net of grantees outside the anti-drug sector, as well as organizations outside those hitherto involved directly in anti-drug services. In addition, the launch of the ACABP in 2013, as set out in

paragraph 3.19(a) of the Audit Report, also testified to the proactive approach adopted by ND in putting the BDF to more use to address the changing needs of anti-drug work, and tapping upon a wider network in the community. Feedback from the ACAN and stakeholders reflects satisfaction in general with the work done.

18. While continuing with the above efforts, considerations are being given to further promoting the utilization of BDF resources under the various schemes in consultation with the ACAN and BDF Governing Committee (GC). Examples include promotion through briefings and experience-sharing sessions for both existing and potential grantees, so that they could have a better understanding on the operation of the BDF for submitting quality proposals.

Marking Scheme

19. Currently, the ACAN adopts a simple marking scheme by giving an overall mark for the relevant applications in the vetting process. Paragraph 4.20(a) of the Audit Report recommends that a marking scheme with weightings and passing marks for each assessment criterion should be adopted. We will consider refining the current process and adopting the suggested marking scheme for the next funding exercise of the Regular Funding Scheme after consulting the ACAN and BDF GC.

**Narcotics Division
Security Bureau
January 2016**

Audit Report No. 65

Chapter 6 – Efforts of the Narcotics Division and Beat Drugs Fund in combating drug abuse

Supplementary Information

This note sets out the supplementary information requested by the Public Accounts Committee (PAC) relating to Chapter 6 of the Audit Report No. 65 on the efforts of the Narcotics Division (ND) and Beat Drugs Fund (BDF) in combating drug abuse.

Drug-related Statistics

2. The ND attaches great importance to ensuring the comprehensiveness and accuracy of drug-related statistics. In this connection, the Central Registry of Drug Abuses (CRDA) serves as an important system in providing relevant drug abuse statistics for monitoring changes in the trends and characteristics of the drug abuse situation in Hong Kong. It is a voluntary reporting system which encompasses reporting agencies involved in anti-drug work, including law enforcement departments, treatment and welfare agencies, hospitals and clinics. For measures to encourage reporting to the CRDA, the ND has been organizing briefings for the reporting agencies, elucidating on the usefulness of the information captured by the CRDA to formulating anti-drug initiatives and hence the importance of their reports, and addressing any questions or concerns of the agencies. To ensure timely reporting, the ND has issued reminders to the agencies with follow-up telephone calls where appropriate. The ND will continue to step up such measures and strengthen the liaison with the reporting agencies with a view to encouraging more reporting to the CRDA.

3. As set out in ^{Appendix 67}~~our reply of 5 January 2016 to the PAC~~, the ND will continue to monitor the trend and characteristics of the drug abuse situation through multiple measures. Apart from utilizing the CRDA, the ND will continue to make reference to the findings of other relevant surveys/studies. For instance, the triennial large-scale student surveys conducted by the ND will help keep track of the drug abuse situation among students of upper primary to post-secondary level in Hong Kong. Relevant researches supported by the BDF also help assess the drug

population in Hong Kong. The ND will also continue to look into the admission statistics of drug treatment and rehabilitation service agencies, as well as drug-related enforcement figures (e.g. on arrests, prosecutions, convictions and sentencing outcomes of drug offences). The findings reflected by these various sources of data and information, when viewed together and analysed, can provide more comprehensive and accurate drug-related statistics and the trends of the latest drug abuse situation in Hong Kong. The ND will maintain the efforts to explore other relevant statistics sources.

Healthy School Programme with a Drug Testing Component (HSP(DT)) and Marking Scheme for the Funding Exercise of the Regular Funding Scheme

4. As requested, we will update the PAC every six months on the progress and results of the independent evaluation research of the HSP(DT), and the progress in adopting a marking scheme with weightings and passing marks for each assessment criterion for the funding exercise of the Regular Funding Scheme.

**Narcotics Division
Security Bureau
January 2016**

**Consolidated response to PAC's questions
on Chapter 7 of the Director of Audit's Report No. 65
Protection of revenue on dutiable commodities and
motor vehicle first registration tax**

This note sets out the response of the Customs and Excise Department (C&ED) to the various questions, and the consolidated response of C&ED and the Financial Services and the Treasury Bureau ("FSTB") to a question addressed to both, as set out in the list attached to the letter dated 23 December 2015 from the Clerk to PAC.

Question 1 (First Part): Does C&ED agree that non-compliance with the customs clearance permit condition would undermine its efforts to detect duty evasion and hence warrants more stringent enforcement action? Are there any guidelines for C&ED to take enforcement actions? Under what conditions would C&ED institute (i) prosecution action and (ii) give verbal warning against non-compliances? What improvement measures will be implemented?

2. C&ED has all along attached great importance to the protection and collection of excise duties.

3. C&ED will investigate all cases of non-compliance with permit conditions, and will take appropriate follow-up actions accordingly. We will seek legal advice from the Department of Justice ("DoJ"), where necessary, as to whether or not there is a case to initiate any prosecution action so as to ensure effective enforcement. For the ten cases mentioned in the Audit Report, C&ED's investigations revealed that there was sufficient evidence for prosecution action in one case only. As for the remaining nine cases, they were all related to minor technical mistakes made in data submission. Further, whilst two permit holders (i.e. Permit Holder B and Permit Holder C as mentioned in the Director of Audit's Report) were each involved in three cases, we consider that instead of initiating any prosecution action, strengthened liaison with the permit holders concerned would be an appropriate and effective way to ensure compliance. In this connection, all permit holders concerned were reminded of the correct data inputting methods to avoid

recurrence of similar technical mistakes. C&ED has also separately briefed and reminded the industry on the data submission requirements through regular liaison meetings (e.g. Dutiable Commodities Customer Liaison Group meetings on 14 and 15 December 2015) and written notifications (e.g. circular letter on 28 December 2015). C&ED will continue to take stringent enforcement actions against non-compliance cases in consultation with DoJ.

Question 1 (Second Part): Why was it that of the 2 461 permits issued for the import / export of DCs by sea via public cargo working areas in 2014, permit conditions were not imposed on 700 (28%) permits to enable C&ED staff to arrange checking of the DCs prior to their loading to / unloading from the carriers? Were the permit conditions not imposed because of perceived lower risks? If so, what were the risk factors considered? What improvement measures will be taken by C&ED?

4. C&ED did not impose permit conditions on 700 permits issued for the import/export of DCs via public cargo working areas (“PCWA”). The considerations were as follows –

- (a) **489 permits** were issued for transshipment consignments only. The subject items did not undergo vanning/devanning in Hong Kong;
- (b) **121 permits** were supplementary permits for surplus items. C&ED already imposed permit conditions (which allowed checking by C&ED prior to their loading / unloading) on the original permits under the same consignments; and
- (c) **90 permits** were issued for consignments which were considered to be of low risk after risk assessments by C&ED’s intelligence system and on which no permit conditions were considered necessary. The risk factors considered included, amongst others, credibility of licensees and latest smuggling trends.

C&ED will conduct regular review and continue to carry out prudent risk assessment. Appropriate permit conditions will be imposed on import/export of DCs via PCWA to guard against cases of duty evasion.

Question 2: According to paragraph 3.12(b), 27 (25%) of 109 repeated offenders who had committed six offences or more each for the past five years from 2010 to 2014 had not been prosecuted. What actions will be taken to address the worsening situation of abuse of duty-free concession and the problem of repeated offenders?

5. In response to the recommendation of the Director of Audit, C&ED will take follow-up actions on two fronts –

- (a) stepping up publicity and education efforts to promote law-abiding behaviour of incoming passengers and promulgate the offences for any abuse of the duty-free cigarette concession, such as increasing the frequency of public announcements and putting up posters at control points to remind passengers about the duty-free concession and the relevant penalties of breaching the law; and
- (b) reviewing the enforcement guidelines with a view to stepping up enforcement actions against recalcitrant offenders as well as those with non-payment records of compound penalty.

Questions 3 and 7: According to paragraph 4.20, C&ED reviewed in 2013 the provisions of the Motor Vehicles (First Registration Tax) Ordinance, including extending the prosecution time bar but the review was still in progress as at July 2015. What is the timeframe for introducing the legislative amendments? [Note: Same question has been addressed to both FSTB and C&ED.]

6. C&ED has put in place various measures to improve the situation, pending any legislative exercise. In order to secure timely prosecution within the statutory time bar, C&ED has already been taking the following steps which have proved to be effective in expediting the prosecution actions –

- (a) enhancing coordination with the Transport Department so as to shorten the referral process of cases;
- (b) reinforcing flexible staff deployment to expedite collection of evidence (e.g. statement-taking from witnesses, verification with the banks and overseas transport authorities); and

- (c) seeking DoJ's legal advice on the case for prosecution at the earliest opportunity.

7. Since the injection of additional manpower in 2013 for reinforcing assessment and inspection, the number of malpractice cases has been declining. Coupled with the measures mentioned in paragraph 6 above, this has allowed C&ED to expedite its investigation work upon referral from TD. The time taken for C&ED to complete the investigation and institute prosecution has been significantly reduced. In the past 12 months, the suspected cases upon referral from TD were all investigated by C&ED, with prosecution instituted on appropriate cases within the statutory time bar of six months.

8. FSTB and C&ED will continue to closely monitor the FRT regime and consider relevant legislative proposals where necessary, having regard to the stakeholders' concerns and the C&ED's operational experience. We will re-visit the need for any legislative amendment in the light of the latest enforcement strategy and identify any specific aspect of the FRT regime that may still warrant tightening up through legislation. Should there be any proposal to amend the law, we will need to engage stakeholders and consult affected parties before introduction of any such proposal into the Legislative Council in the next LegCo term.

Question 4: Beyond procedural guidelines, are there any checks and balances that incentivise the warehouse operators to promptly report DC stock that are left idle for more than three years? Are there any electronic systems in place for C&ED to identify and flag for actions the existence of DC stock that are left idle for over three years?

9. The warehouse operators are now required to submit monthly returns to C&ED to report the particulars of dutiable goods being stored for over three years in their warehouses. The reporting mechanism has been operating smoothly and C&ED will closely monitor the storage period of stocks. C&ED will take timely follow-up actions to direct the owners to remove idle stocks from the warehouses which would, apart from saving C&ED's administrative work, help reduce rental expenses.

Question 5: Has C&ED considered hiring staff to speed up the clearing of long outstanding cases of seized goods and vehicles in order to lower the need and cost for storage space?

10. As mentioned in paragraph 3.40 of the Audit Report, C&ED has already put in place a mechanism to monitor seizure disposal actions and long outstanding cases. C&ED will step up the monitoring under the established mechanism to prevent any unnecessary delays in seizure disposal. This, coupled with the on-going measures to monitor and clear the outstanding seizure cases, has reduced the yearly total rental costs for storage of seized goods from \$16.7 million in 2011-12 to \$11.3 million in 2014-15. Furthermore, C&ED will continue to speed up the disposal of case seizures after the conclusion of the related criminal proceedings and the issuance of confiscation orders by court. Temporary staff will be employed, if necessary, to speed up the disposal work.

Question 6: Would C&ED explain whether the above problem [i.e. lack of will to implement the guidelines more stringently] is attributable to a lack of clear and concise guidelines for execution, a lack of manpower for execution, or other reasons? Could C&ED indicate whether, and how, it would undertake follow-up reviews to ensure that [the reminders to staff] are sufficient to implement the Audit Commission's suggestions?

11. C&ED has all along strived to implement and improve the relevant guidelines in a prudent manner, coupled with communication with the frontline staff. C&ED welcomes the recommendations made by the Audit Commission regarding the work on the protection of revenue on dutiable commodities and first registration tax. C&ED will continue to regularly review the comprehensiveness and clarity of the departmental guidelines, and will incorporate the latest requirements into the training programmes for staff. C&ED will put in place internal measures to monitor the progress in following through the implementation of relevant recommendations in the Director of Audit's Report.

Financial Services and the Treasury Bureau
Customs and Excise Department
January 2016

**Consolidated response to PAC's questions
on Chapter 7 of the Director of Audit's Report No. 65
Protection of revenue on dutiable commodities and
motor vehicle first registration tax**

This note sets out the response of the Customs and Excise Department (C&ED) to the various questions, and the consolidated response of C&ED and FSTB to a question addressed to both, as set out in the letters dated 13 January 2016 from the Clerk to PAC.

Question (a): (i) Under what situation would C&ED seek legal advice from DoJ to initiate prosecution action against cases of non-compliance? Are there any guidelines in this regard? (ii) Has legal training been provided to staff of C&ED so as to facilitate their effective discharge of enforcement duties? (iii) Referring to the case in which prosecution has been taken [as mentioned in our previous reply], what is the result of the prosecution and the penalty imposed, if any?

2. C&ED will investigate all cases of non-compliance with permit conditions and, based on the outcome of investigation and sufficiency of evidence, consider whether there is a case to initiate prosecutions. Our responses to the specific questions are:

- (i) C&ED would seek legal advice from the Department of Justice ("DoJ"), where necessary, as to whether or not there is a case to initiate any prosecution action, so as to ensure effective enforcement of permit conditions for customs clearance. C&ED has issued internal guidelines for staff regarding prosecution actions. According to the guidelines, C&ED would seek legal advice from DoJ if there is doubt as to the adequacy of evidence, or points of law relevant to the case, the appropriateness of the charges, etc.
- (ii) C&ED has also been providing training to their staff on, among others, the relevant legal provisions, the prosecution procedures, the court process, and the relevant key court cases, to facilitate their effective discharge of enforcement duties.

- (iii) Regarding the case mentioned in ~~the reply~~ in which prosecution action was taken, the permit holder was convicted and fined \$8,000.

Question (b): Please provide details of the review [of the enforcement guidelines against recalcitrant offenders and those with non-payment records of compound penalty], including its programme, scope, timetable for completion, publication of review findings and implementation of recommended actions

3. For the purpose of reviewing the enforcement guidelines to step up enforcement actions against recalcitrant offenders and those with non-payment records of compound penalty, C&ED will look into the latest situation and trend of the offence, prevalence of repeated offenders, non-payment of compound penalty, and past records of offenders. The aim is to refine the current enforcement guidelines for ensuring better consistency in the actions taken and achieving better enforcement results by providing greater deterrent to recalcitrant offenders. The review is scheduled to be completed by the end of March 2016, and C&ED would duly implement the refined guidelines accordingly.

Question (c): (i) Whether at this stage FSTB and C&ED consider it necessary to introduce legislative amendments to the [Motor Vehicles (First Registration Tax) Ordinance]? If not, the reasons? (ii) What were the factors and the issues examined in the review? What is the updated status of the review and when will the review be completed and the findings published? If the review is still in progress, what are the reasons that hold up the review?

4. FSTB and C&ED do not see the need to proceed with the introduction of legislative amendments to the Motor Vehicles (First Registration Tax) Ordinance at this stage because –

- (a) Amongst the various aspects of the Ordinance that may merit tightening up, C&ED has stepped up measures and deployed additional resources to enhance the administration of the first registration tax regime, in particular on the assessment of the published retail price and the timely processing of cases for prosecution.

- (b) Drawing on the operational experience gained in the light of the enhanced enforcement strategy, C&ED is reviewing the effectiveness of the legislative provisions. The review covers a number of issues, such as the registration system of importers and distributors, the submission requirements for the published retail price lists, the six-month time bar for prosecution, and the penal provisions, etc.
- (c) The effectiveness of the administrative measures to address the issues covered in the review, in particular on timely processing of cases for prosecution, is also a key factor for considering whether or not it warrants tightening up the legislative regime through amendments to the Ordinance. The review is targeted for completion by mid-2016.

Question (d): Will C&ED consider installing electronic system(s) to facilitate it to identify the existence of DC stock that are left idle for a long time and take necessary actions?

5. To support the mechanism to monitor the storage period of stocks (as mentioned in ~~our previous reply~~ ^{Appendix 69}), C&ED is developing a computer programme to identify idle DC stocks which will facilitate staff to take timely follow-up actions. The programme is scheduled to complete in the second quarter of 2016, and will put into operation after proper testing and trial runs.

Financial Services and the Treasury Bureau
Customs and Excise Department
January 2016

**As regards the Chapter 8 of the Director of Audit's Report No. 65
Management of public lighting system**

Questions and request for information

Questions to be responded by Highways Department

- 1. According to paragraph 1.10, the Highways Department (HyD) contracts out the engineering works to Electrical and Mechanical Services Department (EMSD) who further contracts out the works to external contractors. Why does the Highways Department not undertake the lighting works itself? Under the existing arrangement, which department is the contractor directly responsible to?**

Answer:

The operation and maintenance of special lighting installations is entrusted to EMSD through a service level agreement (SLA). EMSD will utilize its resources including employing contractors to carry out the works. Under this arrangement, EMSD is the works agent of HyD, but not a contractor, and the contractors employed by EMSD are directly responsible to EMSD. As such, HyD does not need to create posts for contract management and supervision.

In 2008, HyD reviewed the above arrangement and found that if HyD had to undertake the contract management for general special lighting, HyD would need to create new posts for establishing a new supervision team. The findings of the review indicated that maintaining the SLA with EMSD was the most cost effective and beneficial arrangement. In particular, EMSD had accumulated sound experiences in maintaining non-traditional road lighting systems such as winches for high mast lights, brightness regulating system for tunnel lights, uninterruptible power supply units, etc. In addition, though operating under a trading fund, EMSD is a professional government department. EMSD's mission was to serve the public instead of making profit and its performance has been very

reliable all along. In case of other road lighting maintenance contractors failing to provide services, EMSD is able to provide backup service so as to minimize the impact to the public. After thorough consideration of the above, our present arrangement of entrusting the operation and maintenance of the special lighting installations to EMSD is appropriate.

- 2. According to paragraphs 2.2 to 2.7, 2.9 and 2.11 to 2.13, to ensure a high service level of road lighting, the management, operation and maintenance (MOM) contractors of HyD 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 systems, HyD carries out night inspections to monitor independently the road lighting availability and the contractors' performance. However, the Audit Commission found that HyD's 51 inspection routes only covered 93 391 (64%) of the total 145 823 road lighting points. Amongst the 52 432 lights not covered by the inspection routes, 14 400 (27%) were directly accessible by vehicles. Moreover, HyD's laid-down requirement for all 51 designated inspection routes to be covered at least once a month was not always strictly observed. For example, in June 2015, 4 out of 27 routes in a region were not inspected while another 17 routes were inspected twice.**

Does HyD have deficiency in monitoring the performance of the contractors? Is there a risk that any outage or substandard performance of the contractors in relation to the uninspected lighting points may not be detected? Are there any improvement measures for monitoring the contractors' performance?

Answer:

Under the current MOM contracts, HyD requires the MOM contractors to carry out regular maintenance and repair works for all road lights in the whole territory under HyD's purview, including annual inspection and lantern cleaning. In addition, the MOM

contractors are required to complete urgent repair works for lighting fault cases within specified time limits. HyD has been monitoring and will continue to closely monitor the MOM contractors' performance to ensure their compliance with the contract requirements. HyD has been conducting audits on the MOM contractors' completed maintenance and repair works regularly and the area of audit covers all the lighting points in the whole territory. Besides, HyD has been carrying out independent night inspections which serve as an additional measure to monitor the performance of the MOM contractors. Overall speaking, HyD has been carrying out various means to monitor contractors' performance for ensuring their compliance with the contract requirements.

Regarding the independent night inspections conducted by HyD, the current nighttime inspection routes mainly cover the locations which are accessible by vehicles so as to carry out additional inspection of those road lights facilities accessible by vehicles. Hence, the coverage of independent night inspections is limited. HyD is maintaining approximately 146 000 road lights within which approximately 93 000 lights are covered by the independent night inspection routes. Amongst the remaining 50 000 lights, about 38 000 lights are village lights or rear-lane and pedestrian-way lights which are not accessible by vehicles. In response to the Audit recommendations, HyD has reviewed the current independent night inspection routes to cover all roads accessible by vehicles including newly constructed roads.

To facilitate the management of the 146 000 nos. of public road lights, HyD has set up a Public Lighting Information System (PLIS) for managing the inspection and maintenance record database. The system has been developed for years. In recent years, the system is becoming unable to satisfy the current operational needs of HyD. Since 2014, HyD has planned to upgrade the PLIS. HyD has commenced to review the PLIS, and has submitted a funding application for upgrading the system with a view to improving the service level of the public lighting system. Before the upgrading of the PLIS, some operations have to be carried out manually, for example, the inclusion of newly constructed roads into the

independent night inspection routes. Regarding the random route selection for the independent night inspection, HyD has been making use of a simple computer program to ensure the randomness of the route selection process. As the computer program was mainly designed to ensure the randomness of the route selection and to prevent manual interruption, there were occasions in which the same route was selected for more than once in a month or was not chosen in the whole month. In response to the Audit recommendations, HyD has improved the route selection computer program to cater for both the randomness of selection and the requirement that all routes have to be selected for inspection at least once a month.

Before the upgrading of the PLIS is completed, HyD will regularly review the independent night inspection routes to ensure the timely inclusion of newly constructed roads into the routes.

- 3. According to Table 1, HyD's inspections route failed to cover all roads with the highest uncovered rate of 44% in Kowloon and the New Territories East. What is the reason behind? Is it related to inadequate communication within the department? Are there any improvement measures in this respect?**

Answer:

Amongst the approximately 14 400 nos. of lamp posts at vehicle accessible roads that have not yet been included in HyD's previous independent night inspection routes, around 12 000 nos. of them are located in Kowloon and New Territories East. Until the upgrading of the PLIS is completed, HyD is required to include the newly constructed roads into the routes manually and the system is unable to give any warning of any roads being left out.

HyD has reviewed the current independent night inspection routes to cover all vehicular accessible roads (including newly constructed roads). Before the upgrading of the PLIS is completed, HyD will regularly review the independent night inspection routes so as to ensure the timely inclusion of newly constructed roads into the routes.

- 4. According to paragraph 2.8, there were new roads found not being included in the inspection route. Why not? What is the number? And since which year was the new roads not being included in the inspections after their completion? Are there any improvement measures?**

Answer:

To facilitate the management of the 146 000 nos. of public road lights, HyD has set up a PLIS for managing the inspection and maintenance record database. The system has been developed for many years. In recent years, the system is becoming unable to satisfy the current operational needs of HyD. Since 2014, HyD has planned to upgrade the PLIS. HyD has commenced to review the PLIS, and has submitted a funding application for upgrading the system with a view to improving the service level of the public lighting system. Before the upgrading of the PLIS, some operations have to be carried out manually, for example, the inclusion of newly constructed roads into the independent night inspection routes and handling of the inspection results.

HyD has reviewed the independent night inspection routes. The review identified 9 nos. of new roads constructed after year 2013 being not included in the inspection routes. They have now been included into the inspection routes. In addition, HyD has put in place measures to ensure all newly constructed roads to be timely included in the inspections routes.

- 5. According to paragraph 2.9, HyD mentioned that the inspection routes are randomly selected by a computer program and therefore there would be an uneven coverage. Theoretically, the coverage should be even if the selection is done by a computer program. What is the reason for uneven coverage? How is the computer program operated? What are the costs for the design and operation of the computer program? How frequent is the program updated and when was it last updated?**

Answer:

In order to ensure the randomness in the selection of independent night inspection routes, HyD has been using a computer program for the route selection since the 4th quarter of 2013 and to arrange for the corresponding inspection. The program is written by HyD staff with no cost of design and operation involved. Through the computer program, inspection routes for any one day are randomly selected from all the routes and the probability of any one route being selected is the same. Given that the requirement for each route to be inspected at least once a month has not been included in the computer program, there were occasions on which some routes had not been selected for a whole month or had been selected more than once in a month. However, in the long run, the frequency of being selected for each route will be similar. In response to the Audit recommendations, HyD has improved the route selection computer program to cater for both the randomness of selection and the requirement that all routes have to be selected for inspections at least once a month.

6. **According to paragraph 2.18 to 2.19, there are two time limits for rectifying urgent faults depending on the nature of repairs 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, two out of the three contractors applied the 12-hour time limit for measuring all their urgent fault call cases in their reports. HyD has let out 3 contracts at an amount of 693 million but the time limits for urgent fault repair were not implemented effectively. What is the reason?**

Answer:

HyD has reviewed the situation in which the two contractors applied the 12-hour time limit for all the urgent fault call cases. Among the total 718 cases of the two contracts, there were 696 cases (about 97%) which the contractors had actually adopted 3-hour as the target time limit and had accordingly completed the repair works within 3 hours,

in compliance with the contract requirements. However, these cases were not properly categorized in the reports submitted by the contractors and were mistakenly grouped under the category of “12-hour repair time limit”. Amongst the remaining 22 cases, the time limits for 11 cases were actually 12 hours and the contractors have correctly categorized and handled the cases in accordance with the contract requirements. For the remaining 11 cases that did not comply with contract requirements, HyD will impose payment deduction to the contractors concerned in accordance with the contract provisions. In addition, HyD has reminded the contractors to properly categorize each fault case in the reports submitted so as to reflect the actual handling of the case. Moreover, HyD staff will scrutinize the accuracy of the reports submitted.

- 7. According to paragraph 2.19, one of the three MOM contractors did not comply with the contract requirement in that many cases which were reported as in compliance in fact exceeded the time limit. And as a result, during the period from June 2014 to May 2015, there were 576 cases of non-compliance not reported. Has the government taken any action against the contractor concerned?**

Answer:

According to the MOM contract requirements, time taken for repair works should be counted from the time a fault call is received. However, one of the contractors has mistakenly adopted the acknowledgement time of fault calls as the starting time. HyD has instructed the contractor to adopt the receiving time of fault calls as the starting time in counting the handling time of repair works. HyD is reviewing all the 576 cases as mentioned in the Audit Report. Cost deduction will be made on the cases which have exceeded the time limits in accordance with the contract provisions. Furthermore, HyD has requested the contractors to provide detailed information in their submitted reports on all fault cases including, inter alia, the receiving time, acknowledgement time, arrival time and completion time, so as to reflect the actual handling of the case. Moreover, HyD will also conduct checking on the reports submitted as well as sample

checking on the repair works to ensure the accuracy of the records.

8. **According to paragraph 3.2, 3.5 and 3.9, EMSTF outsourced the maintenance works of 74% of the special lighting installations to contractors. However, the equipment availability of 99.5% as stipulated in the SLA has not been incorporated in the sub-contract document. Therefore, EMSTF has no power to require the sub-contractors to meet the same target. In addition, according to the SLA, the patrol service on lighting operations shall cover the special lighting points listed in the SLA and any subsequent additional lighting points during the agreement period. However, there are in total 22 nos. of footbridges/subways/walkways (including 1 887 special lighting points) are not included in the routine patrol. Does the above problem reflect that HyD and EMSTF do not completely incorporate the requirements of the SLA in the sub-contract document? Are there any improvement measures in this respect?**

Answer:

The SLA between HyD and EMSD stipulates that the monthly equipment availability shall not be lower than 99.5%. HyD understands that EMSD requires its contractors to complete maintenance works within a time limit in order to achieve the above monthly equipment availability target under the contractual provisions. EMSD has agreed to Audit's recommendation and will incorporate the requirement on monthly equipment availability rate requirement 99.5% in its new contracts.

Regarding the issue on not including some lighting installations in the routine patrol, HyD has established a new database for all special lighting installations since end 2014 and realized in the EMSD database that the name, address and numbering for some lighting installations were different between the databases of HyD, increasing the risk of being left out. HyD understands that EMSD has already carried out rectification. For the 22 footbridges/subways/walkways being left out, 18 footbridges/walkways are included in the SLA and

the remaining 4 footbridges/subways have now been updated in the SLA. HyD understands that EMSD has also updated the 22 footbridges/subways/walkways in its contracts. HyD is now working with EMSD to synchronize the two databases (including aligning all the names, addresses and numbering) which will be regularly carried out in the future to ensure that all footbridges/subways/walkways would be timely included in the routine patrol.

- 9. According to paragraphs 4.2 to 4.5 and 4.16, as at March 2015, there were 1 534 approved road lights that were pending installation. Among these, 71 numbers (5%) were delayed for more than 3 years and 649 numbers (42%) were delayed for 1 to 3 years. Moreover, as at October 2015, there were 1 461 approved village lights pending installation, and among these, 553 numbers were delayed for more than 3 years. What actions will be taken to expedite the much delayed installation works?**

Answer:

Every year, HyD receives proposals for installation of public lighting from different government departments. Upon inclusion of the proposed items in the Public Lighting Programme (PLP) after preliminary assessment, HyD will proceed with the follow-up actions as soon as possible such as carrying out trial pit excavation to ascertain the feasibility of the proposed works. Overall speaking, the major factors affecting the progress of the public lighting installation works are as follows:

1. whether suitable locations for installation of public lighting and suitable routing of lighting cables could be identified;
2. the number of lighting points and the complexity involved in the proposals;
3. the coordination with other road works projects in the vicinity to work out a programme for the public lighting installation works.

If the proposals are found with low feasibility, HyD will liaise with the relevant departments to work out other alternatives or delete the proposed items as appropriate. HyD is now establishing a working group to revisit the proposed public lighting installations included in the PLP. HyD will re-deploy resources to deal with the feasible items according to the time of inclusion in the PLP with an aim to expedite the installation progress. For those items considered not feasible, HyD will timely inform the relevant departments and update the PLP.

For the village lighting, HyD and the Home Affairs Department (HAD) have reached consensus on conducting a comprehensive review over all the applications. The items with prolonged objections that could not be resolved will be deleted from the PLP such that resources can be concentrated on those feasible items. The items deleted will be referred to the departments concerned for follow up action.

10. According to paragraph 4.11, what were the reasons of maintaining the quota of 400 for installation of village lighting in the past 3 years? What is the reason for setting a quota for village lighting?

Answer:

There are two main factors in determining the annual quota of village lighting installation, namely, the resources of HyD and the particular circumstances at the moment concerned.

Before 2011-12, the annual quota for village lighting installations was maintained at about 600. In 2007, there was a backlog of about 3 000 applications for village lights. HAD applied for a special funding allocation with an aim to deal with the backlog. Although the funding application was not approved, HyD re-deployed internal resources to handle the backlog and processed 4 700 applications in three years from 2008 to 2011.

The annual quota returned to 600 in 2011-12 after the clearance of the above mentioned backlog. However, the subsequent applications were mostly at scattered locations. Compared with the past applications in which new village lights were requested on a single village road section, applications in recent years involve mostly the installation of an additional village light in scattered locations or to improve the illumination locally on village roads that already have village light. More time is needed to process these applications and complete the installation of the same number of village lights. In addition, owing to the development in village areas in recent years, there have been a large number of requests for relocating the existing village lights and lighting cables, which need urgent handling and thus consumes a lot of the resources originally assigned for handling the new village light installations. Considering the factors including applications in scattered locations; substantial increase in requests for relocating existing village lights and lighting cables, the actual resources available and the need to deal with the existing cases pending installation, HyD has decided an annual quota of 400 since 2012-13.

Highways Department
7th January 2016

**HIGHWAYS DEPARTMENT**

5TH FLOOR, HO MAN TIN GOVERNMENT OFFICES
88 CHUNG HAU STREET, HOMANTIN, KOWLOON, HONG KONG
Web site : <http://www.hyd.gov.hk>

路政署
香港九龍何文田忠孝街八十八號
何文田政府合署五樓
網址 : <http://www.hyd.gov.hk>

本署檔案 Our Ref. : () in HyD CR 4-35/1
來函檔號 Your Ref. : CB4/PAC/R65
電 話 Tel. : 2762 3301
圖文傳真 Fax : 2714 5203

25 January 2016

Mr Anthony CHU
Clerk
Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr CHU,

Public Accounts Committee

Chapter 8 of the Director of Audit's Report No. 65
Management of the public lighting system

Supplementary Information

Thank you for your letter of 13 January 2016. I would like to provide the following supplementary information on the upgrading of the Public Lighting Information System (PLIS):

To facilitate the management of the public road lights, the Highways Department (HyD) has set up a PLIS for managing the inspection and maintenance record database. The system has been developed for years. In early 2014, HyD started the planning for upgrading of the PLIS. Since then, a review on the PLIS has been carried out to identify areas for improvement and explore ways to enhance the system to



meet the current operational needs of HyD for effective and efficient management of public road lights. The current database consists of an inventory of about 146 000 public road lights throughout Hong Kong. The planned upgrading of the PLIS will make use of the technology advancement in database management with a view to improving the performance of the system for a much larger number of road lights, cables and controllers which the existing PLIS is unable to handle efficiently.

The review has been substantially completed. We are now seeking funding within the Government to upgrade the PLIS. Apart from its ability to generate regular reports on the maintenance/repair/inspection record and performance condition of the individual elements of the road lighting system, we are planning to include the following proposed enhancements in the system upgrading work:

- revamping the existing PLIS with a web-based solution;
- incorporating latest Geographic Information System technology to assist in the management of the public road lights (including planning of inspection routes);
- enhancing database management such as ensuring the degree of accuracy, integrity and security of road lighting records with regular quality audit by HyD of data updates from the contractors; and
- generating exception reports to enable more efficient and effective monitoring and control of the performance in the inspection, repair and maintenance of the road lighting system.

Upon the availability of funding, we expect that the proposed upgrading of the PLIS would be completed in about two years.

Yours sincerely,



(W W CHUI)

for Director of Highways

/....3

c.c. Secretary for Financial Services and the Treasury (Fax : 2147 5239)
Director of Audit (Fax : 2583 9063)
Director of Electrical and Mechanical Services (Fax : 2882 9042)
Director of Home Affairs (Fax : 2203 4603)
Secretary for Transport and Housing (Fax : 3904 1774)

Chapter 8 of the Director of Audit's Report No. 65
Management of the public lighting system

Written questions for reply

REPLY FROM EMSD

Q1.

The special lighting engineering services provided by the Electrical and Mechanical Services Trading Fund (EMSTF) to Highways Department (HyD) is different from general road lighting engineering work, in that special lighting work requires specialized skills such as mechanical engineering involved in maintaining the winch of high mast lighting, and electronic engineering involved in maintaining underpass lighting control system. EMSTF is operating with a greater flexibility and is fully making use of the market resource to complement our professional team which is equipped with specialized skills and has profound experience. This enables us to provide comprehensive and cost-effective engineering services for special lighting installations.

We believe that HyD, like other client departments of EMSTF, has taken into consideration operational needs and cost-effectiveness in entrusting the engineering services of special lightings to EMSTF. EMSTF is the engineering work agent of HyD on special lightings, and contractors employed by EMSTF are managed directly by EMSTF.

Q2.

Following the Audit recommendation, EMSTF has already incorporated the 99.5% monthly availability requirement in the coming general special lighting subcontract to ensure subsequent execution by the subcontractor.

The 22 footbridges/subways/walkways mentioned in the Report were left out of regular patrol due to mismatch in the data records of HyD, EMSTF and the subcontractors. In October 2015, we already added these installations to the SLA and subcontract, and regular patrol already commenced since then. Thereafter, we will timely include the information of newly added installations to our database and the scope of subcontract to ensure that the regular patrol will include these newly added installations during the SLA period. We will also perform data matching among the databases of HyD, EMSTF and the subcontractors on a quarterly basis to ensure their accuracy and consistency.

5 January 2016

民政事務總署
香港灣仔軒尼詩道一百三十號
修頓中心三十一樓



Home Affairs Department

31st Floors, Southorn Centre,
130 Hennessy Road,
Wan Chai,
Hong Kong.

本署檔號 Our Ref. HAD HQ CR/4-35/5 (C)

來函檔號 Your Ref. CB4/PAC/R65

電話 Tel.: 2835 1005

傳真 Fax.: 2834 5103

6 January 2016

Mr Anthony CHU
Clerk to Public Accounts Committee
Legislative Council
1 Legislative Council Road
Central, Hong Kong

Dear Mr CHU,

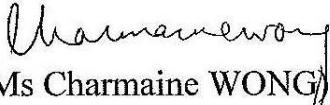
Public Accounts Committee
Consideration of Chapter 8 of the Director of Audit's Report No. 65
Management of the public lighting system

I refer to your letter of 23 December 2015 to the Director of Home Affairs. Our response to the question raised in your letter is set out below.

Q1. According to paragraph 4.14 and Annex K, it took a long time for the Home Affairs Department (HAD) to approve the installation of village lighting. As a result, there was a huge backlog of applications. What is the reason?

As pointed out in paragraph 4.14 and Annex K of the Audit Report, the installation works of some of the village lights had remained outstanding for over three years after inclusion in the PLP. Longer processing time was required for these cases due to receipt of objections on the lighting locations, difficulties in finding a site meeting time that suited the schedule of all parties concerned, change of mind on the lighting locations by Village Representatives or applicants, contrasting views of the current and former Village Representatives on the lighting locations, adverse comments from concerned government departments on the proposed lighting locations which were within conservation areas or near heritage sites, obstruction of cable routes by utilities drawpits, site constraints, etc.

Yours sincerely,


(Ms Charmaine WONG)
for Director of Home Affairs

c.c. Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)
Director of Highways (fax no. 2714 5216)

**Response by Labour and Welfare Bureau
Chapters 9 of the Director of Audit's Report No. 65
Support for Self-reliance Scheme**

Paragraph 2.6, table 3, and paragraphs 5.5 and 5.6 of the Report

Response to Question 1

The Labour and Welfare Bureau (LWB) attaches great importance to facilitating employment of those who are able to work, promoting their self-reliance and enabling them to realise their potential with a view to driving our economic development and easing the impact of an ageing population. The Low-income Working Family Allowance (LIFA), which is tied to employment and working hours to encourage self-reliance, will be launched in May 2016. We will conduct an evaluation of LIFA one year after its implementation, and will in tandem consider the future of the Support for Self-reliance Scheme in that context.

Chapter 9 of the Director of Audit's Report No. 65
Support for Self-reliance Scheme
Questions asked and Information requested

Paragraphs 1.6, 1.10, 3.6, 3.7, 5.3 and 5.5 of the Report

- 1. For projects that have failed to attain the minimum job-securing rate specified in the Integrated Employment Assistance Programme for Self-reliance (IEAPS) contract, what are the details of the follow-up actions taken by the Social Welfare Department (SWD)?**

SWD has built in a monitoring mechanism for ongoing and systematic evaluation of the performance of the non-governmental organisations (NGOs) operating the IEAPS projects (the operators), which has included the operators being required to submit Quarterly Performance Summaries¹ and issued with Benchmark Reports². These include the job-securing rates and off-Comprehensive Social Security Assistance (CSSA)-net-rates of service recipients served by individual operators. SWD will, on the basis of the service performance, require operators that fall behind the requirements to submit an action plan within one month for improvement measures to be taken to enhance the service outputs and quality. SWD will continue to closely monitor if there is any improvement in the service outputs and quality of an operator based on the Performance Summary and the Benchmark Report.

Moreover, SWD has arranged Project Managing Officers (PMOs) to examine the 41 projects under the IEAPS regularly. Apart from regular monitoring visits, relevant officers of SWD (such as Social Security Officers of various ranks) will also meet with the management personnel of the operators on a need basis.

For projects with lower job-securing rates as mentioned in paragraphs 5.6(a) and (b) of the Report, SWD had sent emails to the respective operators during the IEAPS contract period to require

¹ **Performance Summary** mainly includes the number of cases under various services, the number of persons who secure employment, the number of hours of classroom training and work exposure services provided, etc.

² **Benchmark Report** mainly includes the data in the performance summary being compared with the highest, lowest and average percentage figures of the 41 employment assistance projects.

them to submit action plans for improvement measures to be taken as soon as possible to meet the contract requirements on job-securing rates. SWD has been closely monitoring the performance of these operators, and the job-securing rates of most of these projects showed improvement at the end of the contracts.

Meanwhile, we understand that the job-securing rate of able-bodied unemployed CSSA recipients is subject to factors such as the social and economic situation, labour market conditions, personal characteristics and family conditions of the recipients. SWD will continue to closely monitor the performance of the operators and implement follow-up measures.

2. Upon expiry of the original IEAPS, why did SWD continue to commission the NGOs that had failed to achieve the objectives to operate the extended IEAPS?

Selection criteria for commissioning NGOs to operate the IEAPS

In 2012, during the commissioning process for NGOs to operate the IEAPS from 1 January 2013 to 31 March 2015, SWD invited interested NGOs to submit project proposals detailing the services to be provided by them to meet the objectives and requirements specified in the IEAPS Service Specifications. SWD selected suitable NGOs to operate the IEAPS in accordance with a set of selection criteria, including the applicant organisations' objectives, strategies and implementation details in operating the IEAPS, experience and performance in providing previous employment assistance services, human resources and financial managements, etc. One of the selection criteria was the past performance of the NGOs in operating various employment assistance programmes of SWD (including the Integrated Employment Assistance Scheme, New Dawn Project and Special Training and Enhancement Programme).

Extended IEAPS

In the 2015 Policy Address, a provision of \$223 million was earmarked for extending the IEAPS for two years and engaging NGOs to provide employment assistance services for employable able-bodied CSSA recipients. This would enhance their employability, help and encourage them secure employment and achieve self-reliance.

Considering that the performance of the operators was found to be generally satisfactory, SWD continued to commission the original NGOs to operate the programme until March 2017. This arrangement helped ensure continuity of the service, prevented interruption to the employment assistance services provided for CSSA recipients and minimised disruption to the support for able-bodied unemployed CSSA recipients.

SWD will monitor the performance of the NGOs on an ongoing basis. In order to commission suitable NGOs to provide employment assistance services for able-bodied unemployed CSSA recipients, SWD will take full account of the past performance of the NGOs in operating various employment assistance programmes when they are invited to submit proposals for operating the IEAPS in future.

Paragraph 1.11 – Table 2 of the Report

- 3. The Special Training and Enhancement Programme (My STEP) assists unemployed youths in securing employment through “motivational” or “disciplinary” training such as adventure training, wild camping, hiking, mountaineering and military training, etc. What are the number of such activities held by SWD and NGOs, the expenditure for each event and the number of participating youths? Have the cost-effectiveness and outcome of these activities been evaluated?**
- 4. Has there been evaluation on whether resources would be more directly and effectively utilised by helping unemployed youths look for various “on-the-job” training so that they can learn from the job and apply what they have learnt, as compared with organising the above “motivational” or “disciplinary” training of which the effectiveness is difficult to evaluate? If yes, what are the details? If no, what are the reasons?**

My STEP was a trial project targeting those unemployed youths who had been on CSSA for a certain period and failed to be motivated to work despite having participated in the employment assistance programme. Unemployed youths with low readiness for employment were motivated through disciplinary training, job placement and other employment assistance services to achieve

self-reliance. First implemented in October 2006 in Tin Shui Wai and Yuen Long on a pilot basis, My STEP was subsequently extended to other districts by SWD in view of the encouraging outcome of the trial project.

In 2007, SWD commissioned The Chinese University of Hong Kong to conduct an evaluation study on the effectiveness of My STEP. The report stated that motivational and disciplinary trainings were crucial elements throughout My STEP, which were effective in re-building youths' self-esteem and self-confidence, thus increasing their employability to achieve self-reliance.

SWD has implemented the IEAPS since January 2013. The content and services of My STEP under the IEAPS are generally the same as the one which was firstly implemented in October 2006.

SWD has fixed the contract sum for the IEAPS according to the number of service capacity provided under various services. NGOs may exercise flexibility to use the sum to provide services complying with the stipulations in the Service Specifications of the IEAPS, which include Ordinary Employment Assistance Services, Strengthened Employment Assistance Services, New Dawn Project Services and My STEP.

Regarding My STEP, SWD has set out in the Service Specifications of the IEAPS the required number of service capacity to be achieved and the hours of motivational/disciplinary training to be provided by the operators during the contract period.

The service capacity and hours of motivational/disciplinary training of My STEP set by SWD and the actual performance of the operators from January 2013 to March 2015 were as follows –

Service performance requirements		Actual performance of operators	
Number of service capacity	Hours of motivational/ disciplinary training	Number of participants	Hours of motivational/ disciplinary training
600	30 000	663	31 069

The service performance requirements of My STEP set by SWD and the actual performance of the operators from January 2013 to March 2015 were as follows –

Service performance requirements		Actual performance of operators	
Percentage of participants who have secured employment or returned to mainstream schooling for 1 month	Percentage of participants who have secured employment or returned to mainstream schooling for 3 months	Percentage of participants having secured employment or returned to mainstream schooling for 1 month	Percentage of participants having secured employment or returned to mainstream schooling for 3 months
45%	35%	56.4%	36.5%

Furthermore, apart from motivational and disciplinary training, operators provide training, job matching arrangement, job attachment, post-placement/post-education follow-up services or counseling service, etc having regard to the individual needs of participants. Suitable participants aged between 15 and 24 are also referred to the Youth Employment and Training Programme of the Labour Department so as to gain hands-on work experience through job attachment.

SWD considers it necessary to continue providing these unemployed youths with some elements of motivational and disciplinary training under My STEP project so as to assist them to secure employment or return to mainstream schooling as soon as possible.

Paragraph 1.12 of the Report

- 5. It is mentioned in paragraph 1.12 of the Report that the types of occupation secured by IEAPS participants mostly included labourer, waiter/waitress, salesperson, cleaner and watchman/guard. With an amount of \$220 million earmarked to extend the IEAPS, has SWD evaluated whether it is good value to spend such a large sum of public money for training/improving employment awareness and helping CSSA recipients to seek employment/work in these trades?**

The aim of the IEAPS is to encourage and assist able-bodied employable CSSA recipients to overcome work barriers, enhance employability, seek paid employment and rejoin the workforce to become self-reliant and leave the CSSA net. We believe that if suitable employment assistance is provided to these employable CSSA recipients to help nurture their self-esteem, it will be hugely beneficial to both society and the recipients themselves. Under the IEAPS, around 38% of the participants are aged 50 to 59 and around 76% only have junior secondary education level or below. They may have some difficulties in securing other types of jobs, and may initially have to settle for some ordinary jobs in the labour market. After acquiring certain working experience, they may have other advancement opportunities.

In fact, jobs should not be categorised in terms of class, and there is good merit in the Government allocating resources to help able-bodied CSSA recipients secure employment or leave the CSSA net then. The job-securing rate and off-CSSA-net rate of the IEAPS participants from January 2013 to end-November 2015 are given in the table below:

Category of services	No. of participants	No. of participants having secured employment	No. of participants having left CSSA net
Ordinary Employment Assistance Services [*]	57 637 [@]	10 696 (18.6%)	2 103 (3.6%)
New Dawn Project Services [^]	4 373	1 810 (41.4%) (714 persons secured full-time employment; 1 096 persons secured part-time employment)	253 (5.8%)
Special Training and Enhancement Programme [^]	972	423 [#] (43.5%) (294 persons secured full-time employment; 129 persons returned to mainstream schooling)	82 (8.4%)
Total	62 982	12 929[#] (20.5%) (11 704 persons secured full-time employment)	2 438 (3.9%)

^{*} Including Strengthened Employment Assistance Services

[@] The number of participants includes:

- (i) those who had joined the Integrated Employment Assistance Scheme by end-December 2012 and transferred to Ordinary Employment Assistance Services under the IEAPS since January 2013 as arranged by NGOs; and
- (ii) newly registered participants since SWD launched the IEAPS (i.e. 1 January 2013).

[^] Recipients who had joined New Dawn Project and Special Training and Enhancement Programme by end-December 2012 had to register afresh for New Dawn Project Services and Special Training and Enhancement Programme under the IEAPS at its launch (i.e. 1 January 2013).

[#] Including the number of participants having returned to mainstream schooling

- 6. As regards encouraging unemployed CSSA recipients to secure employment, has SWD considered enhancing the recipients' incentive to secure employment by adopting an approach of providing assistance on a descending scale whereby the longer a recipient receives CSSA due to unemployment, the less he will receive? If yes, what are the details? If no, what are the reasons?**

The CSSA Scheme is designed to help those who cannot support themselves financially owing to various reasons such as unemployment, low earnings, old age, disability or ill-health by bringing their income to a certain level for them to be able to meet their basic needs. As CSSA is a safety net of last resort, if a recipient is to receive less CSSA payment proportional to the duration of his or her being unemployed under CSSA, the recipient and the family may not have enough to pay for basic daily necessities and may therefore fall into hardship. SWD will continue providing unemployed CSSA recipients with appropriate employment assistance services, in addition to enhancing their self-esteem, self-confidence and employability.

Paragraph 1.14 of the Report

- 7. Why hasn't SWD got the statistical breakdown of the resources required for the implementation of the Support for Self-reliance (SFS) Scheme?**

There are currently 21 officers under the staffing establishment of the Support for Self-reliance (SFS) Section of SWD. Apart from the duties relevant to the implementation and coordination of the SFS Scheme and the monitoring of the service performance of the operators, the SFS Section is also responsible for the work in relation to able-bodied adults and children under the CSSA Scheme. Moreover, apart from processing the CSSA and Social Security Allowance cases, the social security staff in the 41 Social Security Field Units (SSFUs) of SWD are also responsible for assisting in the implementation of the SFS Scheme, including referring unemployed CSSA recipients to the operators for employment assistance services and following up the services provided to various CSSA recipients by the operators. As such, SWD does not have the breakdown of the administrative resources required for the implementation of the SFS

Scheme.

Paragraph 2.11 of the Report

- 8. The Audit Commission has recommended that SWD should conduct regular analysis of the profile of SFS Scheme participants in a more efficient manner. SWD enhanced the database of the Scheme in April 2015 and started using the database management system in July 2015. Regarding the enhancement in April 2015 relating to data input validation, please advise the specific details of the validation process.**

Operators have been regularly collecting and collating data of participants under individual projects and submitting the data to SWD on a monthly basis. Based on relevant data, operators provide participants with suitable and targeted training programmes and employment assistance services, having regard to the participants' education background/skills.

Since the IEAPS was launched in January 2013, SWD has been using Microsoft Excel as the software for processing data of the IEAPS. In April 2015, SWD took enhancement measures with an enhanced database used to replace the previously more complicated data processing procedures. The enhancements of the database included simplifying the input pages, categorising different types of participants, enhancing data input validations, and adding drop down list, etc. In addition to ensuring easier and more accurate data input by operators, SWD can also conduct analysis of the performance of the IEAPS more effectively.

Furthermore, the database uses function designs for automatic calculation and displays the same information on different worksheets for data checking. For example, the dates on which the Category III service recipients' youngest child turns 15 years old are calculated automatically to remind operators to take appropriate follow-up actions^{Note}. Information of the participant, such as name, CSSA case number, identity card number, type of services participated and date of participation, are also displayed automatically throughout different worksheets according to the

^{Note} The database automatically calculates the dates on which the Category III service recipients' youngest child turns 15 years old. The aim is to remind operators that Category III service recipients are required to participate in Category I Services if their youngest child reaches the age of 15.

inputted participant code. The above enhancements enable operators to input various types of information more effectively and accurately. The database is also equipped with data checking mechanism, such as the use of data validation, formatting and function designs available in the software to show errors or missing data entries. This can remind operators to check whether the relevant information is input correctly. Moreover, the data checking mechanism has enabled SWD to check the accuracy of data submitted by the operators in a more efficient manner.

To further enhance database management and facilitate more comprehensive data analysis, SWD has been using the database management system, Microsoft Access, since July 2015 to increase the effectiveness in integrating and analysing participants' information submitted by the operators every month. This is conducive to the preparation of different types of monthly or quarterly reports (including benchmark reports and data analysis reports), which help SWD closely monitor the service performance of the operators.

Paragraph 2.12 of the Report

- 9. According to paragraph 2.12 of the report, there were a number of limitations in SWD's computer information system, rendering it difficult for SWD to conduct comprehensive data analysis regularly and efficiently. In view of the fact that SWD does not have figures relating to the resources required in the SFS Scheme and that there are limitations in the computer system, it is difficult for SWD and members of the public to monitor and evaluate the effectiveness and cost-efficiency of the \$220 million of public money spent on the IEAPS. Can SWD pledge to make improvements as soon as possible and not to increase the ensuing estimates of expenditure before the completion of such improvements? If no, what are the reasons?**

Currently, records of CSSA recipients are maintained in the Computerised Social Security System (CSSS), while records of SFS Scheme participants are maintained separately in a standalone computerised database. The matching between the data of the SFS Scheme database and the records of the CSSS is conducted on a need basis to analyse data of SFS Scheme participants.

SWD is in the process of developing a new CSSS which is expected to be rolled out in early 2018 to replace the existing one. Incorporating key records of SFS Scheme participants, the new system would facilitate regular analysis of participants' data to be conducted more effectively.

Prior to the new system being rolled out, SWD stepped up efforts to enhance the database of the SFS Scheme in April 2015 and also in July 2015 to facilitate close monitoring of the service performance of the operators. For details, please refer to the reply under Question 8. These enhancement measures are being implemented continually with no additional expenditure involved.

Paragraph 2.14 of the Report

- 10. The Audit Commission has recommended that SWD should consider collecting views on the IEAPS from the participants. SWD will draw up feedback forms. What are the actual measures to be taken by SWD to ensure that the participants will complete the feedback forms?**

SWD is now drawing up feedback forms for participants. It also plans to select targeted participants randomly on a regular basis beginning from the first quarter of 2016, and will send the relevant name lists and feedback forms to respective operators for conducting survey on the participants. Operators are required to distribute the feedback forms to participants and collect the forms within a specific time frame. Operators are also required to submit the completed forms to SWD for conducting data analysis.

Paragraph 2.17 of the Report

- 11. The Audit Commission has recommended that SWD should report the performance targets and indicators for the SFS Scheme. Has SWD set the performance targets and indicators for the services under the SFS Scheme since June 1999? If yes, please provide the details.**

In June 1999, SWD launched the SFS Scheme with the aims of encouraging and assisting able-bodied unemployed CSSA recipients and recipients who were not working full-time to secure full-time paid employment. SWD has implemented various employment

assistance programmes to help CSSA recipients become more self-reliant and integrated into society. These programmes include employment assistance programmes for able-bodied adults, My STEP specially designed for youth, as well as Ending Exclusion Project (EEP) / New Dawn (ND) Project to assist single parents.

The service performance targets and indicators of various programmes are provided below:

(1) Active Employment Assistance (AEA) Programme

Target : to encourage and assist able-bodied unemployed CSSA recipients and recipients who were not working full-time to secure full-time paid employment and move towards self-reliance.

AEA was implemented from June 1999 to December 2012. Since January 2001, various employment assistance programmes operated by NGOs had been launched in parallel.

Implementation Period	Name of Programme	Service Indicator
June 1999 to December 2012	AEA Programme [including Community Work (CW) programme]	All able-bodied unemployed CSSA recipients aged 15 to 59 are required to join the AEA and CW assigned by SWD.
January 2001 to December 2003	Special Job Attachment Programme	Provide service for at least 975 participants per year.
March 2001 to January 2005	Intensive Employment Assistance Fund	Provide intensive employment assistance service for at least 1 200 participants per year.
October 2003 to September 2008	Intensive Employment Assistance Projects (IEAPs)	Assist at least 40% service recipients to secure full-time paid employment.

Implementation Period	Name of Programme	Service Indicator
October 2006 to September 2008	District Employment Assistance Trial Projects	Assist at least 30% service recipients to secure full-time paid employment.
October 2008 to September 2011	Integrated Employment Assistance Scheme (IEAS)	<ul style="list-style-type: none"> ◆ Assist at least 20% ordinarily-assisted service recipients to secure full-time paid employment. ◆ Assist at least 40% intensively-assisted service recipients to secure full-time paid employment.
October 2011 to December 2012	Extension of the IEAS	<ul style="list-style-type: none"> ◆ Assist at least 20% ordinarily-assisted service recipients to secure full-time paid employment. ◆ Assist at least 40% intensively-assisted service recipients to secure full-time paid employment.

(2) EEP / ND Project

Target of EEP : to provide employment assistance services and various support services to single parents on CSSA, whose youngest child was aged under 15.

Target of ND Project : to provide employment assistance services to CSSA single parents and child carers with the youngest child aged 12 to 14.

Implementation Period	Name of Programme	Service Indicator
March 2002 to March 2006	EEP	This is a voluntary programme. SWD did not set any performance indicator.
April 2006 to September 2007	ND Project	Provide employment assistance services to CSSA single parents and child carers with the youngest child aged 12 to 14.
	New Dawn Intensive Employment Assistance Projects	Assist at least 40% service recipients of single parents and child carers to secure paid employment with at least 32 working hours in a month.
October 2007 to March 2010	Enhanced ND Project	<p>◆ Assist at least 30% ordinarily-assisted service recipients to secure paid employment with at least 32 working hours in a month.</p> <p>◆ Assist at least 40% intensively-assisted service recipients to secure paid employment with at least 32 working hours in a month.</p>
April 2010 to September 2011	The third phase of the ND Project	Assist at least 40% service recipients of single parents and child carers to secure paid employment with at least 32 working hours in a month.
October 2011 to December 2012	Extension of the ND Project	Assist at least 40% service recipients of single parents and child carers to secure paid employment with at

Implementation Period	Name of Programme	Service Indicator
		least 32 working hours in a month.

(3) My STEP

Target : to provide employment assistance services, including counselling and structured motivational or disciplinary training to able-bodied unemployed CSSA recipients aged between 15 and 29 to help them secure full-time employment or return to mainstream schooling.

Implementation Period	Name of Programme	Service Indicator
October 2006 to September 2007	The trial My STEP	Assist all the service recipients to secure full-time paid employment or return to mainstream schooling.
October 2007 to September 2009	The second phase of My STEP	Assist at least 45% of the service recipients to secure full-time paid employment or return to mainstream schooling.
October 2009 to September 2011	The third phase of My STEP	Assist at least 45% of the service recipients to secure full-time paid employment or return to mainstream schooling.
October 2011 to December 2012	Extension of My STEP	Assist at least 45% of the service recipients to secure full-time paid employment or return to mainstream schooling.

(4) IEAPS

Target : to provide able-bodied CSSA recipients with a range of one-stop integrated employment assistance services on family basis to help them overcome work barriers, enhance employability and secure paid employment.

The IEAPS has been launched since January 2013.

Category of services		Service Indicators (Note)	
		Percentage of service recipients having secured employment or returned to mainstream schooling for 1 month	Percentage of service recipients having secured employment or returned to mainstream schooling for 3 months
Category I	Ordinary Employment Assistance Services	20%	15%
Category II	Strengthened Employment Assistance Services	40%	30%
Category III	ND Project Services	40%	30%
Category IV	My STEP	45%	35%

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.

Paragraph 3.6 of the Report

- 12. The Audit Commission has recommended that SWD should commission NGOs to provide welfare services on a competitive basis, taking into account NGOs' past performance in the selection process. If selection of NGOs on a competitive basis would be adopted after March 2017, how long will the selection process take as estimated by SWD? Will SWD announce the scores of results or selection criteria?**

When extending the IEAPS in the future, SWD will continue inviting NGOs to submit proposals on IEAPS operation in order to commission appropriate NGOs to provide employment assistance services to unemployed able-bodied CSSA recipients. SWD will publicise in SWD's website to invite NGOs who are interested in operating the IEAPS to submit proposals and specify details of the services to be provided to meet targets and requirements as stipulated in the Service Specifications of the IEAPS. In the Service Specifications, SWD will provide the various assessment areas and their relative weighting in the marking scheme to assist NGOs in formulating their proposals. It is estimated that the whole selection process will take about four to five months and the selection results will be announced in SWD's website. However, as in other open and fair selection processes, the scores concerned would not be announced.

Paragraph 3.13 of the Report

- 13. The Audit Commission has recommended that SWD should critically review the methodology for setting service capacity and put any unused capacity to gainful use. As a contract normally covers several years during which there may be changes to the labour market, will SWD consider formulating a flexible service capacity whereby the contract sum is determined by the number of service recipients?**

In the past, SWD adopted different resources allocation modes in funding the employment assistance programmes, among which was the allocation by the numbers of service recipients and recipients who had successfully secured employment. Under this mode, however, the amount of resources allocated to the operators fluctuated with the number of service recipients. As such, it was difficult for the

operators to plan ahead of service provision and recruit suitable and sufficient manpower, making it difficult also to effectively maintain the quality of services.

In view of the above, SWD has been adopting the mode of ‘allocation-by-fixed amount’ when implementing various employment assistance programmes since October 2011 to enable the operators to flexibly deploy resources.

In future, in addition to making reference to the previous average number of unemployment CSSA cases, SWD will also take into account the actual number of service recipients of different categories of employment assistance programmes as well as the trend of the number of unemployed persons in Hong Kong when drawing up the service capacity and determining the contract sums.

Paragraph 3.21 of the Report

- 14. The Audit Commission has recommended that SWD should assess the need to provide further guidance on the qualification of caseworkers and the ratio of service recipients to caseworker. Does SWD consider a minimum ratio of service recipients to caseworker at 110 to 1 to be acceptable? If yes, what are the scientific or academic justifications?**

SWD adopts the “quality-based allocation system” for commissioning NGOs to operate the IEAPS on a competitive basis and the staffing requirements (including project manager, caseworker(s) and supporting/clerical staff) have already been set out in the Service Specifications of the IEAPS. To provide appropriate employment assistance services to able-bodied unemployed CSSA recipients, operators may exercise flexibility to utilise resources based on their actual service and operational needs in arranging the manpower (including the arrangement of the required manpower in an appropriate ratio of service recipients to caseworker) and equipment required to ensure service quality and meet the service performance requirements as specified in the Service Specifications.

Paragraphs 4.3 to 4.6 and 4.11 of the Report

- 15. The Audit Commission has recommended that SWD should remind NGOs of the need to comply with the contract requirement to avoid some projects under the IEAPS not providing the number of classroom training hours and work exposure service sessions as specified in the contracts. Effective measures should also be taken in order to follow up with those NGOs who cannot meet the requirements. SWD considers that the number of unemployment cases and the social characteristics of the community and the participants affect the NGOs' arrangement of classroom training hours and work exposure services for the participants. What kinds of measures have SWD been taking to ensure that the NGOs have adequate resources to provide sufficient classroom training hours and work exposure service sessions to the participants?**
- 16. Under the current IEAPS, the monitoring measures being adopted by SWD to ensure that the provision of classroom training hours and work exposure service sessions be maximized to help enhance the employability of more unemployed CSSA recipients.**

Resource arrangement for classroom training and work exposure service

Based on the number of cases in different districts, SWD has projected the service capacity and allocated the resources required, including the administration fee, for different projects so that the operators are able to meet the IEAPS-related expenses, including the expenses on classroom training and work exposure service.

Monitoring mechanism

To monitor service performance, operators are required to submit to SWD, on a regular basis, service database and Quarterly Performance Summaries. SWD also regularly issues Benchmark Reports to the operators for reference. In case the number of classroom training hours and the work exposure service sessions provided by them are not satisfactory, SWD will require the concerned operator to provide an action plan within one month in order to find out the reasons why it is unable to meet the service requirements. The operator is also

required to propose in the action plan its remedial actions for meeting the service requirements. In addition, SWD has arranged PMOs to examine the 41 projects under the IEAPS regularly. Apart from regular monitoring visits, the respective officers of SWD (for example Social Security Officers of various ranks) will also meet with the management personnel of the operators on a need basis. (For details, please refer to the reply under Question No.1)

SWD will, based on the Benchmark Reports, continue to monitor the service performance of the operators and regularly remind them of the need to comply with all service requirements, including the stipulated classroom training hours and work exposure service sessions.

Moreover, since December 2015, SWD has been arranging meetings with those operators whose service performance is relatively poor as reflected in the first two quarters of the Benchmark Reports under the Extension of IEAPS (from 1 April 2015 to 31 March 2017 for 24 months). Through the meetings, SWD can understand more about the reasons why the service performance of the operators are lower than expected, while taking the opportunity to require the operators to take immediate improvement measures so that the service requirements, including the provision of classroom training and work exposure service, as well as the stipulated job-securing rates, can be met.

The following are the external factors which explain partly why the number of classroom training hours and work exposure service sessions are not being provided as specified in the contracts:

- (1) The number of CSSA cases, including unemployment cases, has registered a continuous decrease since September 2009, reducing the size of the pool of recipients from which the operators can select suitable participants for the classroom training and work exposure services.
- (2) The social characteristics of the community and the participants have affected the operators' arrangement of classroom training and work exposure service for the participants. For example, some districts have a significant number of participants who either have no fixed abode or move around frequently. Under such circumstances, the operators have difficulties arranging for such participants sufficient classroom training and work exposure

services that meet the service requirements.

- (3) Under the IEAPS, around 38% of the participants are aged 50 to 59, while around 76% only have junior secondary education level or below. Work exposure services that require relatively high physical input may not be suitable for such participants who may also be more reluctant to attend training activities.
- (4) In some cases, the participants may not be able to attend classroom training or work exposure service due to sickness, temporary jobs being taken up or other reasons, despite that such activities have been arranged by the operators.
- (5) Some participants may have withdrawn from the IEAPS shortly after enrollment (for example becoming ill-health, having secured full-time employment or having withdrawn from CSSA due to other reasons) so that the operators are unable to arrange classroom training or work exposure service for them.

Paragraphs 4.14, 4.15 and 4.17 of the Report

- 17. Has SWD conducted risk assessment of possible abuse in connection with service recipients being exempted from attending the activities of the programme? If yes, please provide the details. If no, what are the reasons?**
- 18. Effective measures taken by SWD to ensure adequate verification of the service recipients' justifications for not attending IEAPS activities.**

Arrangements for exemption from attending IEAPS activities

Under existing requirements, service recipients of the IEAPS have to actively seek jobs and attend all IEAPS activities (e.g. workplan interviews, classroom training and work exposure services). Service recipients may be exempted from attending the activities on special occasions, such as pregnancy (during the four-week period immediately before the expected date of confinement, and in the six-week period immediately after the date of confinement), sickness or taking up temporary jobs.

Currently, the operators are responsible for processing exemptions which last for a period of not more than three consecutive months. The SSFUs are responsible for processing exemptions involving a period of more than three consecutive months or doubtful cases.

Guidelines on processing applications for exemption from attending the activities

It is clearly stated in the procedural guidelines that proper verification should be made if there are doubts on the supporting documents and information provided by the service recipients for exemptions from attending IEAPS activities. According to the guidelines, SWD staff should conduct in-depth investigation/verification for doubtful cases where, for example:

- (1) the salary is significantly low;
- (2) there are merely one to two working hours on each working day;
and

- (3) the reported working days always fall on the dates scheduled for programme activities.

Monitoring mechanism

SWD has built in a monitoring mechanism for ongoing and systematic evaluation of the performance of the NGOs operating the IEAPS projects. Arrangement has been made for PMOs to examine the 41 projects under the IEAPS regularly, including conducting monitoring visits, work exposure service site visits, training venue visits and telephone spot checks.

Should any inadequacy be found regarding the services provided by the operators or their case handling procedures, the PMOs will require the operators to take rectification and improvement immediately. Upon completing various visits or telephone spot checks, the PMOs will submit reports to the Social Security Officers for consideration.

To strengthen the monitoring of the operators, SWD has since December 2015 conducted supervisory checks through independent visits to the operators by SWD's Social Security Officers I to review on a random basis the cases that have been spot checked by PMOs.

Risk assessment of possible abuse and other relevant measures taken by SWD in connection with service recipients being exempted from attending IEAPS activities

SWD has been conducting risk assessment on possible abuse in connection with service recipients being exempted from attending IEAPS activities. Apart from conducting regular monitoring visits, for operators with relatively poor performance in case handling, SWD will, during monitoring visits, increase the number of cases (in which exemptions from attending IEAPS activities have been granted) to be checked. Moreover, to further strengthen monitoring, SWD will, from January 2016 onwards, conduct regular random checks on cases where the exemptions from attending IEAPS activities having been granted by the operators reach a certain number of times over the past three months, to review whether proper procedures have been taken in handling exemption of service recipients from attending IEAPS activities, and whether the service recipients have submitted sufficient supporting documents.

SWD also emailed all operators and SSFUs in early and late December 2015 respectively to remind them of the need to exercise exemptions properly.

SWD will also regularly remind the operators and the SSFUs to carefully consider and verify the circumstances of individual cases when exercising exemptions, in addition to providing training courses for the staff of the operators and the SSFUs to enhance their skills for proper handling of employment assistance service cases.

Paragraph 5.9 of the Report

- 19. In response to the Audit's recommendation that SWD should enhance its risk-based approach in conducting monitoring visits and conduct more visits for projects with relatively poorer performance, SWD indicated that the number of visits was affected by the high turnover of contract staff. In this connection, has SWD been assigning contract staff to conduct visits to operators? How does SWD ensure that the contract staff are familiar with the IEAPS?**

SWD has built in a monitoring mechanism for ongoing and systematic evaluation of the performance of the NGOs operating the IEAPS projects. Arrangement has been made for PMOs to examine the 41 projects under IEAPS regularly, including conducting monitoring visits, work exposure service site visits, training venue visits and telephone spot checks. For details, please refer to the replies under Questions 17 and 18.

Officers of the Social Security Officer grade and experienced PMOs are assigned to be the mentors for newly recruited PMOs who are explained the content and procedural guidelines of the IEAPS and taught the skills for monitoring visits and inspections. Refresher training and sharing sessions are also regularly organised by SWD both for PMOs to have enhanced knowledge and understanding about the IEAPS and the monitoring of the service performance of the operators, and for SWD to keep abreast of the difficulties encountered by PMOs and jointly find a feasible solution. Moreover, PMOs are given the latest information, including any amended or updated work-related materials or procedures, through internal emails or short meetings.

- 20. Does the failure for some projects to meet the minimum requirements as specified in the contracts regarding the classroom training hours, work exposure service sessions and the job-securing rates constitute a breach of contractual service conditions or the contractual assurance provisions? Is SWD entitled to terminate the contract, seek compensation or seek an order from the court to direct the NGOs breaching the contracts to meet specified performance standards? If SWD has failed to take actions under the contract to safeguard interests, can it be regarded as SWD's fault? Does SWD consider there should be any room for improvement regarding the terms and conditions of the IEAPS contracts to enhance the implementation of the SFS Scheme? What are the details of the follow-up actions taken by SWD in this regard?**

IEAPS

To integrate and enhance the various employment assistance services under the CSSA Scheme, thereby enhancing effectiveness and achieving synergy, SWD launched the consolidated IEAPS on 1 January 2013 by integrating the previous "Integrated Employment Assistance Scheme", "Special Training and Enhancement Programme" and "New Dawn Project". Under the integrated programme, one single operator would provide diversified and one-stop employment assistance services to employable CSSA recipients based on individual needs and on a family basis. At the same time, operators were also responsible for providing work exposure services previously run by SWD (i.e. the previous "Community Work"). To the operators, it was a kind of new service.

Contractual Requirements of the IEAPS

Under the contractual requirements of the IEAPS, if an operator has failed to meet the service requirements or handle the cases and provide the required services in accordance with the procedural guidelines without follow-up measures taken, SWD may terminate the contract concerned as necessary, with the operator concerned being required to return the remaining service fee to SWD. SWD also takes into consideration the fact that the operators may encounter certain situations and difficulties beyond their control when operating the IEAPS. For details of the various factors contributing to the

operators' failure to meet the minimum requirements as specified in the contracts regarding the job-securing rates, the classroom training hours and work exposure service sessions to be provided, please refer to the replies under Questions 1 and 15 respectively.

Improvement measures

Prior to the new CSSS being rolled out, SWD stepped up efforts to enhance the database of the SFS Scheme in April and July 2015 respectively to facilitate close monitoring of the service performance of the operators. For details, please refer to the reply under Question 8.

Moreover, in future, in addition to making reference to the previous average number of unemployment CSSA cases, SWD will also take into account the actual number of service recipients of different categories of employment assistance programmes as well as the trend of the number of unemployed persons in Hong Kong when drawing up the service capacity for employment assistance services for CSSA recipients and the corresponding classroom training hours and work exposure service sessions.

本署檔號 Our Ref. : SWD/SFSS 1-175-12 Pt 2

來函檔號 Your Ref. : CB4/PAC/R65

電話號碼 Tel. No. : 2892 5686

圖文傳真 Fax No. : 2838 0757

25 January 2016

Mr Anthony Chu
Clerk, Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 9 of the Director of Audit's Report No. 65
Support for Self-reliance Scheme

Thank you for your letter dated 14 January 2016 on the captioned subject. Attached please find the supplementary information as requested.

Yours sincerely,



(Miss Maria Lau)
for Director of Social Welfare

c.c. Secretary for Labour and Welfare (fax no. 2537 3539)
Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

Chapter 9 of the Director of Audit's Report No. 65
Support for Self-reliance Scheme
Supplementary Information requested

Selection criteria for commissioning non-governmental organisations (“NGO”) to operate Integrated Employment Assistance Programme for Self-reliance (“IEAPS”)

- **It was mentioned in your reply that the performance of the operators of IEAPS was found to be generally satisfactory; therefore Social Welfare Department (SWD) continued to commission the original NGOs to operate IEAPS until March 2017. In this connection, please explain in details why SWD considered the performance of the original NGOs satisfactory, notwithstanding some of them did not meet the minimum requirements of job-securing rates as stipulated in the IEAPS contracts.**

The IEAPS contracts have set out the performance requirements for each of the four categories of services, and the operators are required to meet the minimum job-securing rates as specified in the contracts. The job-securing rate of able-bodied unemployed CSSA recipients is subject to factors such as the social and economic situation, labour market conditions, personal characteristics and family conditions of the recipients.

For projects with lower job-securing rates as mentioned in the Audit Report, SWD requested the respective operators, during the IEAPS contract period (i.e. from January 2013 to March 2015) to submit action plans for improvement measures to be taken as soon as possible to meet the contract requirements on job-securing rates. SWD has been closely monitoring the performance of these operators, and assessed that the job-securing rates of most of these projects showed improvement at the end of the contracts. SWD also understands that these operators have proactively taken various feasible measures to increase the job-securing rates of the service recipients. However, owing to some external factors [for example, there were a significant number of participants who either had no

fixed abode or moved around frequently (e.g. street-sleepers, drug addicts and discharged prisoners) in the districts served by the operators, and some participants withdrew from the IEAPS shortly after enrolment (e.g. becoming ill-health, having secured full-time employment or having withdrawn from CSSA due to other reasons)], the operators were unable to provide appropriate employment assistance services to all of the participants in an effective manner and were not able to meet the minimum job-securing rates as specified in the contracts.

SWD will continue to closely monitor the performance of the operators and implement measures with a view to enhancing the monitoring mechanism.

Public Accounts Committee
Chapter 10 of the Director of Audit's Report No. 65
Shine Skills Centre

Replies to Public Accounts Committee
from Labour and Welfare Bureau

1. Concerning the 2nd and the 7th floors of the SSC (Pokfulam) building, which has been left vacant for a long period of time (para. 4.4), has the government estimated the loss in rental income in each of the financial years calculated using the prevailing market rent for the same period, as a result of such premises being vacant for a prolonged period?

Reply to Q.1: The SSC (Pokfulam) building has all along been designated for vocational training purposes and the 2nd and 7th floors of the building have been earmarked for the development of Hostel for Severely Mentally Handicapped Persons (HSMH) and Day Activity Centre (DAC) since February 2011. There was no rental income involved.

2. With reference to paragraphs 4.5 and 4.8 of the Audit Report, whether the Labour and Welfare Bureau had followed up with VTC or Social Welfare Department regarding the change of land use of the 2nd and 7th floors of the SSC (Pokfulam) building between February 2011 and June 2015? Please provide the progress of the application for the change of land use and the number of beds to be provided by the hostel for severely mentally handicapped persons in the future.
3. About the two vacant floors of the SSC (Pokfulam) building, the Secretary for Labour and Welfare said that the Bureau convened a meeting on 7 October 2015 with parties concerned in order to expedite the provision of the planned rehabilitation facilities in the building (para. 4.8). Whether any progress has been made subsequent to the meeting? Has the Administration set a timetable to settle this long overdue issue?

Reply to Q.2 and Q3: Since the 2nd and 7th floors of the SSC (Pokfulam) building were earmarked for the development of HSMH and DAC in February 2011, the Labour and Welfare Bureau (LWB) lined up the Vocational Training Council (VTC) and the Social Welfare Department (SWD) for direct liaison with regard to the operational issues pertaining to the application for change in land use and handing-over of site and impressed upon VTC and SWD the need to expedite action for early handing-over of the two vacant floors. LWB also followed up with VTC and SWD on various occasions regarding issues on site feasibility of the subject premises, demarcation of site boundary, preparation works for relocation, proposed schedule of fitting-out works and application for change in land use, etc. In April 2015, 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 student training purposes. Having consulted SWD, LWB, in June 2015, rejected VTC's proposal on the grounds that the two floors had been earmarked since February 2011 for release to SWD for setting up a HSMH and a DAC for persons with severe intellectual disability, and there had been a constant increase in the demand for such facilities. Such welfare uses would remain to be in demand for a long time to come .

VTC wrote to the Lands Department (LandsD) on 23 July 2015 to seek their advice on whether it was necessary for VTC to apply for waiver for change in land use of the two vacant floors. While VTC was awaiting LandsD's advice, LWB convened a meeting on 7 October 2015 with VTC, LandsD and SWD to expedite the provision of the planned rehabilitation facilities in the building. After the meeting, VTC submitted an application to the LandsD on 16 October 2015 for waiver for change of land use. LandsD circulated the proposal on 4 November 2015 to relevant government bureaux and departments for comments and, according to LandsD, no department raised objection to the proposal. In parallel, SWD sought the endorsement of the Lotteries Fund Advisory Committee at its meeting held on 11 December 2015 of the funding application for the related fitting out works, procurement of furniture and equipment

and other improvement works for the setting up of the HSMH and DAC at the premises.

SWD will consult the Community Affairs and Tourism Development Committee (CATDC) of the Southern District Council in the first quarter of 2016 on the proposal. Subject to the support of the CATDC, SWD plans to put the proposal to the Legislative Council (LegCo) Panel on Welfare Services for approval within the 2015-16 legislative session and then to the Finance Committee of the LegCo. Barring unforeseen slippage and taking into account the time required for selecting a NGO to operate the HSMH and DAC and for the NGO to fit out the premises, HSMH and DAC will commence service in mid-2017.

The HSMH and DAC will respectively provide 30 residential care places and 60 training places for persons with severe intellectual disability.

Labour and Welfare Bureau
8 January 2016

Vocational Training Council 職業訓練局

19F VTC Tower, 27 Wood Road, Wan Chai, Hong Kong 香港灣仔活道27號職業訓練局大樓19樓
www.vtc.edu.hk

Mrs Carrie Yau 尤曾家麗 GBS JP
Executive Director 執行幹事

Telephone No 電話 2836 1399

Facsimile No 傳真 2591 4773

Our Reference 本局檔號 (5) in VTC – C265/1/5

Your Reference 來函檔號 CB4/PAC/R65

7 January 2016



Mr Anthony Chu
Clerk
Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

Public Accounts Committee

**Chapter 10 of the Director of Audit's Report No. 65
Shine Skills Centre**

Written questions for reply

Referring to your letter dated 23 December 2015 and 29 December 2015, I attach herewith our reply to your written questions in both Chinese and English for your perusal. Thank you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carrie Yau', written over a horizontal line.

Carrie Yau
Executive Director
Vocational Training Council

Encls.

Public Accounts Committee

Chapter 10 of the Director of Audit's Report No. 65

Shine Skills Centre

Responses to Public Accounts Committee Questions

Q. 1

Why did the Shine Skills Centre ("SSC") not exclude those in supported employment or working in sheltered workshops in calculating the percentage of graduated students in employment (para. 2.3 to 2.5 and 2.12)? Can SSC report the destinations of its graduated students so as to provide a clear and comprehensive picture of how the students fared? Can follow-up employment surveys be conducted to monitor the graduated students' employment status in the longer term? Has the Administration taken any follow-up work to help these graduated students to integrate into society; if it has, of the details (e.g. additional efforts to help these students to seek employment and to further their studies, etc); if not, the reasons for that?

Answer (Q. 1)

SSC did not exclude those in supported employment or working in sheltered workshops in calculating the percentage of graduated students in employment as the presentation of the employment data has all along been accepted by the members of VTC's Committee for Vocational Training for People with Disabilities (CVTPD) and the community at large. The membership of CVTPD which has a good representation of the community includes the Commissioner for Rehabilitation, a rehabilitation professional nominated by the Hong Kong Polytechnic University; representatives nominated by Social Welfare Department, Labour Department and Education Bureau; and representatives nominated by the Hong Kong Special School Council, Hong Kong Council of Social Service and the business sector. VTC will further discuss the presentation of the data on open employment, supported employment and sheltered workshops in CVTPD under the agenda on employment statistics.

The destinations of SSC's graduates as set out in Table 7 of the Audit Report have been posted on VTC's website since 29 December 2015.

SSC shall attempt to design a follow-up employment survey for graduates of the past two years. The pilot run would start in summer 2016. At the same time, we are assessing the merit of a more comprehensive tracking system covering the first, second and fifth years' post-graduate destinations for SSC graduates.

SSC sees that some graduates may come back to SSC for counseling service and therefore SSC is committed to support graduates for a period of six months after their graduation.

Q. 2

Whether consideration would be given to strengthening the connection between the Vocational Training Council (“VTC”) and the business sector with a view to improving the effectiveness of the Work Orientation and Placement Scheme (“WOPS”) (para. 2.6 to 2.8)?

Answer (Q. 2)

WOPS is a scheme operated by the Labour Department. SSC has always had a strong tie with the business sector. Representatives of the business sector serving at VTC’s Committee on Vocational Training for People with Disabilities include major business associations: the Chinese Manufacturers’ Association of Hong Kong, Federation of Hong Kong Industries, Hong Kong Institute of Human Resource Management and Hong Kong General Chamber of Commerce. Business partners and our business donors also have a strong presence in activities such as the Open Days, Graduation Ceremony, Employers Award-giving Ceremony and Public Education Fund activities. Business connections also offer strong support to SSC in identifying employment opportunities for SSC graduates.

Q. 3

Why did SSC not request graduated students to state in the employment survey whether their employment was under WOPS? (para. 2.7) Will it request graduate students to provide such information in its future employment surveys?

Answer (Q. 3)

Throughout the years, the employment survey has been made less complicated to SSC’s graduates in order to ensure a reasonable response rate. SSC has not requested graduates to state whether their employment has been under WOPS since employers do not have the obligation to reveal their participation in WOPS to their employees. We are not sure if SSC graduates would be able to state whether their employment is under WOPS if we seek this information in future employment surveys.

VTC’s Statistics Section would review the validity and the usefulness of adding this question.

Q. 4

According to paragraph 2.8 of the Audit Report, since WOPS provides a financial incentive to employers to hire the graduated students, this could have boosted the employment rate of graduated students in open employment, why did SSC not provide two set of figures – figures about its graduated students’ employment status for the one-to-eight-months period and the eight-to-twelve months period – with a view to revealing a more genuine picture of its graduated students’ employment by off-setting the distorted influence of WOPS?

Answer (Q. 4)

As employers do not have the obligation to reveal their participation in WOPS to SSC management, SSC graduates are also unlikely to be able to distinguish whether they are employed under WOPS or otherwise. SSC considers that providing two rates of figures as proposed will unlikely form a valid basis for examining the correlation between WOPS and the period of graduates' employment. Our assessment is that it is probably far more effective to conduct a more comprehensive tracking system covering first, second and fifth years' post-graduate destinations for SSC graduates.

SSC is to launch a follow-up employment survey for graduates of the past two years , starting from mid-2016 (Also see A5).

Q. 5

What are the resources (in terms of manpower and money) incurred for conducting SSC report about the employment survey for its graduated students each year? Has VTC assessed the resources (in terms of manpower and money) incurred if the current employment surveys were expanded to monitor its graduated students' employment status in the longer term, i.e. 1-3 years, 3-5 years and 7-10 years; if it has, of the details; if it hasn't, of the reasons? (para. 2.13(d))

Answer (Q. 5)

The cost (manpower and money inclusive) incurred for conducting SSC report about the employment survey for its graduated students each year is about \$200,000. VTC has not assessed the resources (in terms of manpower) incurred if the current employment surveys were expanded to monitor its graduated students' employment status in the longer term, i.e. 1-3 years, 3-5 years and 7-10 years.

We feel that it is far more useful to conduct a tracer study covering second and fifth years' post-graduation destinations. The cost is not yet available. Once we have decided to adopt this system, we shall estimate the cost.

Q. 6

According to paragraph 2.14 of the Audit Report, SSC has started working with the VTC's Statistics Section for the presentation of a more detailed information on the destinations of graduated students. In this connection, what is the timetable for the completion of such work and what information will be provided under "a more detailed information"?

Answer (Q. 6)

The information of the destinations of the graduates has been posted to VTC's website in the format as in Table 7 of the Audit Report since 29 December 2015.

Q. 7

According to paragraph 2.14 of the Audit Report, VTC says it will consider providing detailed information on the destinations of SSC graduated students to the Finance Committee where appropriate. What does VTC mean by "appropriate"?

Answer (Q. 7)

'Where appropriate' refers to 'as and when the Finance Committee considers it appropriate'.

Q. 8

Please provide the type of assistance offered by the Shine Skills Centre to graduated students who plan for further study.

Answer (Q. 8)

To prepare SSC graduates who may aspire to pursue further study, SSC has adopted a holistic training approach. Apart from the regular trade-specific training, there are cross-programme common modules such as Chinese, English and Practical Mathematics and respective core trade modules for programmes of the same stream. There are also the Whole Person Development programme for all students to help them improve their life skills (e.g. social skills, self-care, time management, job seeking skills). SSC is also keen on arranging extra-curricular activities and competitions to develop students' different skill areas. Students are provided with the additional training in self-care and social skills as well as counselling service. All these aim to assist the students to acquire a sustainable life/ work skills for employment and further study.

Q. 9

As revealed in paragraphs 2.17 to 2.19 of the Audit Report, the performance of some Student Counsellors were not satisfactory, in particular concerning inaccurate information provided to management and low number of jobs secured and trial work placements arranged by these Students Counsellors. While VTC agrees to the Audit's recommendations on boosting the performance of Student Counsellors, please provide the number of cases handled by these Student Counsellors in 2013/2014 and specific plans and initiatives to implement the Audit's recommendations (para. 2.22 (a) to (c)). Does the current VTC's policies implicitly tolerate below par performance of its Student Counsellors? Will its Students Counsellors face any

consequences if their performance has not lived up to expectations after a specified period?

Answer (Q. 9)

In 2013/14, each Student Counsellor takes care of an average of 73 students in counseling and delivering other student development services. Unfortunately, there was inaccuracy in statistics returns in 2013/14. On Audit's recommendation stated in Para. 2.22 (a), a newly developed IT data compilation system is now in place to ensure accuracy of Student Counsellors' monthly returns.

On Audit's recommendation stated in Para. 2.22 (b) and (c), SSC will institute an overall review on the methodology for enabling a reasonably fair distribution of placement loading for Student Counsellors having regard to different levels of student abilities. The placement duties, among other duties that the Student Counsellors have, such as developing students' attributes (job/life attitude and skills), counseling work, centre activity involvement and communication with students' families and employers, are considered in totality in evaluating Student Counsellors' performance.

SSC would devise a benchmarking system taking account of the varying student abilities and relevant factors affecting placement counts.

The target for implementing a new transparent benchmarking system would be worked out by mid-2016.

VTC does not tolerate below-par performance of its staff members. The current Performance Management System provides the framework for evaluating the staff members' achievement of the goals and competency level.

Q. 10

According to paragraph 3.4 of the Audit Report, of the 15 specific vocational assessments examined by Audit, the time for issuing specific assessment reports ranged from less than 4 weeks to as long as 16 to 18 weeks. Please explain the reasons for such a huge divergence and provide details about the difficulties involved in issuing each of the delayed assessment reports.

Answer (Q. 10)

The divergence of timing in issuing specific assessment reports is due to the complexity of the cases which require longer processing time. For example, the applicants are unable to present their disability reports or their parents/ guardians cannot be reached.

Q. 11

About the target time of 4 weeks as pledged by VTC for issuing its assessment reports, has VTC notified the persons with disabilities (“PWDs”) concerned about its failure to deliver the relevant assessment reports as pledged within a reasonable time (para. 3.4), e.g. within 5 days after the delay occurs by letter or within 3 days by phone or other electronic means; if it has, please provide details; if not, the reasons. Will VTC improve in this regard? How will VTC adopt the Audit’s recommendation about releasing early comments on performance in vocational assessments to PWDs who are not recommended to receive vocational training to facilitate them to make alternative arrangements (para. 3.5(b))?

Answer (Q. 11)

SSC has made arrangement that in future, when there is a delay, SSC can inform the applicant in writing (by electronic means) within 5 days and by phone within 3 days. Since the examination conducted by the Audit, SSC has no cases of delay.

As Audit recommended, SSC has arranged to release early comments to those who are not recommended to receive vocational training. This can be arranged as soon as expert views of the trade assessor, medical doctor, Labour Officer from Labour Department, registered social worker, Specialist (Education Service) and Occupational Therapist are obtained and assessment results confirmed in the Case Conference.

Q. 12

With a view to collaborating with more non-governmental organizations (“NGOs”) for the provision of part-time training courses by SSC, will VTC provide an annual target number of NGOs to be collaborated for each SSC training sites in future (para. 3.12)?

Answer (Q. 12)

Whilst SSC is responsible for operating part-time (PT) programmes, NGOs collaborate with SSC in identifying their clients’ job training needs, discussing with SSC the training/ programme scopes for their clients. In fact, NGOs collaborating with SSC are not the course providers/ operators of these PT programmes.

The different locations of the centres could have a bearing on seeking collaboration with NGOs. Both Pokfulam and Tuen Mun are less accessible as there are no MTR stations nearby. Nonetheless, as recommended in the Audit Report, SSC would put extra efforts to reach out to more NGOs in offering PT programmes to PWDs. Rather than arbitrarily setting any target number, the number of NGO for collaboration will be reviewed on an annual basis.

Q. 13

With reference to paragraph 3.13 and 3.14 of the Audit Report, please provide the criteria adopted by VTC in the past four years in assessing the ability of the relevant NGOs in providing suitable and relevant training programmes. Under what circumstances will VTC replace the collaborated NGOs in the provision of part-time training courses?

Answer (Q. 13)

We wish to clarify that NGOs are not direct providers of training programmes (Also see A12).

Q. 14

According to paragraph 3.14 of the Audit Report, SSC solicits views from employers and trade participants for continuous improvement of the training programmes. In this connection, please provide the specific work undertaken by VTC and views collected through such a means in each of the past 5 years? Please provide details of the training programmes which are added/deleted or with contents modified in the past 5 years.

Answer (Q. 14)

SSC solicits views from employers and trade participants for continuous improvement of the training programmes. Views from the External members of Programme Committee such as (i) representative from the Selective Placement Division of the Labour Department (ii) representative from Special School Council, and (iii) employers are sought. For the programme changes by year, please refer to the following table. The key changes have been on developing the programmes with the 'outcome-based approach', adding the 'Whole Person Development Programme' to the curriculum, closing programmes such as 'Massage Service' in SSC (KT) and 'Programme Assistant Practice' in SSC (PF) and developing new modules for the IT stream to cater for the job market needs and developing new programmes for better match of the market. Examples of changes in applicant needs include, for example, greater chance of mainstream education for the visually impaired persons who would not need to take massage as their future jobs.

Academic Years	Details of the training programmes which are added deleted or with contents modified (training and learning methodologies) in the past 5 years
2010/11	<ol style="list-style-type: none"> 1. Review of the Curriculum Framework of SSC programmes (covering mainly the module hours and module scope, dividing modules to common and electives to cater for better training effectiveness) 2. New programmes: <ol style="list-style-type: none"> (a) Health and Beauty Care Assistant; (b) Business and Computer Practice; and

	(c) Catering and Housekeeping Service
2011/12	<ol style="list-style-type: none"> Staff training for developing SSC programmes on Outcome-based Curriculum Design New programmes: <ol style="list-style-type: none"> Catering and Housekeeping Services; Multiple Intelligences Enhancement Programme; and YouShine Programme
2012/13	<ol style="list-style-type: none"> Pilot Development of outcome-based curriculum Development of two new part-time evening programmes: <ol style="list-style-type: none"> Gift Wrapping, Flower Arrangement; Packaging Practices; and Refreshment Production and Cleaning Practices
2013/14	<ol style="list-style-type: none"> Development of outcome-based curriculum – Phase 1 Revision of Courses of Information Technology Stream, by adding the modules 'Web Shop Practice' and 'Application Software for Smart Device'
2014/15	<ol style="list-style-type: none"> Development of outcome-based curriculum – Phase 2 Revision of the programme, 'Design and Desktop Publishing', by adding the module 'Popular Photography' Revision of programmes of Service Stream, by adding the module 'Special Cleaning'. Closing of the programme 'Massage Service' in SSC (KT) and 'Programme Assistant Practice' in SSC (PF)
2015/16	<ol style="list-style-type: none"> Development of outcome-based curriculum – Phase 3 Development of a new full-time programme 'Sports and Recreation Service' – survey and curriculum writing completed. Teaching and Learning Materials to be prepared for operation in AY 2016/17 – Progress as scheduled.

Q. 15

According to paragraph 3.18 of the Audit Report, the actual time taken for processing PWDs' admission applications for 2013-2014 varied from less than 1 month to 7 months. What were the reasons for such large variation of processing time? Will VTC provide a timetable for formulating a target time for processing applications for SSC full-time training programmes?

Answer (Q. 15)

Some cases take longer to process due to the complexity of the situations described in the answer to Q. 10 above. e.g. The applicants are unable to present their disability reports or the applicants, their parents/ guardian cannot be reached.

Only upon completing the vocational assessment reports, are we in the position to assign applicants to relevant programmes. SSC has now formulated a target timeline for processing admission applications. Having regard to different duration required for processing assessment reports, applications from Special Schools will normally be processed within 6 weeks and applications from non-Special School sources will normally be processed within 16 weeks.

Q. 16

According to paragraph 3.23 of the Audit Report, the reasons for students 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". SSC told Audit that the training sites had taken measures to assist students who were going to drop out. In order to provide more personalized services for the students, in particular for the dropout students, whether VTC would review the student-teacher ratio? Please provide the measures to be taken to attract more teachers to join the SCC.

Answer (Q. 16)

Drop-out cases come with reasons such as 'family or health reasons' or 'not interested in skills training' are not unexpected. SSC respects individuals' choice while SSC has also taken appropriate measures in assisting students who are going to drop out through counselling work and reviewing the training issues that they might be faced with.

The current student-teacher ratio is one teacher-count for 10 students. This has not been considered as inadequate.

Q. 17

According to paragraph 3.24 of the Audit Report, two programmes, namely "Office practice" and "Catering and housekeeping practice" were consistently rated by more than half of the

graduated students as “fairly relevant: or “not relevant” to their employment in the period 2011/2012 to 2013/2014 academic year. In this connection, whether VTC has taken any efforts since 2011/2012 academic year to address the graduated students’ concern; if it has, please provide details; if not, the reasons?

Answer (Q. 17)

For enhancing the relevance levels, SSC has been working on:-

- (a) Capturing the up-to-date market information on job needs – arranging staff for industrial visits; seeking advice from programme advisors
- (b) Reviewing the teaching content of the modules within the programmes to ensure that job market needs have been catered for; revising the materials where necessary by phases
- (c) Reviewing the intake number for each programme with reference to estimated job numbers in different trades as provided by the Labour Department

Q. 18

The Audit noted that SSC did not send questionnaires to employers of all graduated students (para. 3.26). For instance, the rating of 7.7 in 2014/2015 academic year was based on 28 returned questionnaires out of the 34 questionnaires sent by SSC. However, this was only a fraction of the whole picture, given 137 graduated students reported that they were in open employment according to the 2013/2014 employment survey. SSC said the Student Counsellors would only send a questionnaire to those employers who, based on their experience, would be willing to respond to the questionnaire. How did SSC justify the Student Counsellors’ experience as reliable? Is the Student Counsellors’ experience subject to review? Why did SSC not take a more proactive approach to persuade the employers who deemed by the Student Counsellors as irresponsive?

Answer (Q. 18)

SSC has worked out with VTC’s Statistics Section to revamp the methodology and work flow for sending out employment survey questionnaires to all employers starting from the survey for the 2014/15 graduates.

Q. 19

According to paragraph 3.30 of the Audit Report, SSC will consider setting a target completion rate for each full-time training programme. What is the timetable for the completion of such work? What is the justification for setting the target completion rate of 80% as one single rate

for all full-time training programmes?

Answer (Q. 19)

Following the recommendation made in para. 3.30 of the Audit Report, SSC is considering the basis/ rationales for determining different target completion rates for different types of programmes. The varying completion rates would be deliberated at Shine Skills Centre Academic Board and the different rates may be confirmed by mid-2016. The previously set target of 80% hitherto aimed to achieve the best possible outcome. However, in the light of experience, we feel it may be more useful to set more realistic targets taking into account factors such as students' disability types.

Q. 20

The employer satisfaction survey conducted by SSC is quantitatively based (para. 3.21). Does VTC consider that this method has satisfactorily and effectively reflected the merits and demerits of the employer satisfaction survey? Will VTC consider, in addition to the quantitatively based employer satisfaction survey, introducing a qualitatively based employer satisfaction survey as a complement to gauge more specific opinions, criticisms and recommendations from the employers; if it will, please provide details; if not, the reasons?

Answer (Q. 20)

SSC agrees to the suggestion for obtaining qualitative data of employers' views. The current survey system would be reviewed to incorporate the qualitative elements.

Q. 21

Concerning the 2nd and the 7th floors of the SSC(Pokfulam) building, which has been left vacant for a long period of time (para. 4.4), please provide the expenditure incurred for the repair and maintenance of such vacant premises by the authorities in each of the financial years since they have been left vacant?

Answer (Q. 21)

The expenditure incurred for the repair and maintenance of the 2/F and 7/F of the SSC (PF) Building is minimal as there were no additional staff counts or service costs allocated to these floors.

Q. 22

Why have the 2nd and the 7th floors of the SSC (Pokfulam) building been left vacant over a long

period of time (para. 4.5)? What is the way forward for the SSC (Pokfulam)? Could the services offered at SSC (Pokfulam) be integrated with the other two centres?

Answer (Q. 22)

The 2nd and the 7th floors of SSC (Pokfulam) were originally intended to be surrendered to SWD/LWB for alternative use. The case was processed between October 2011 and October 2013. As new needs from SSC have risen, VTC has put forward new proposals to put the vacant floors for training purposes as outlined in Audit Report para. 4.5 (b). Considering the needs of different users, LWB/SWD then maintains that they would wish the premises be made available for NGO use.

SSC (Kwun Tong) was already 47 years old and the building does not allow sufficient space nor substantial improvement works to accommodate the needs of the training and learning activities of the SSC (Pokfulam) students. SSC is discussing with LWB on the redevelopment of the building. Should redevelopment plan be taken forward and space provision be increased, there is the possibility to integrate the services.

Q. 23

With reference to paragraphs 4.5 and 4.8 of the Audit Report, please provide the reasons for VTC not taking action to apply to the Lands Department for change of land use of the 2nd and the 7th floors of the SSC (Pokfulam) building since February 2011. What is the latest progress of the matter?

Answer (Q. 23)

There was exchange of views between VTC and SWD from October 2011 to October 2013. In October, 2015, LWB coordinated the exercise for change of land use. The following provides the key information of the process:

- (a) Technical details were clarified for the waiver application for the land use of the two floors of the SSC (PF) Building in the October meeting convened by LWB and joined by VTC, SWD and Lands Department. VTC then filed the waiver application to Lands Department. To VTC's understanding, Lands Department had then circulated the proposed waiver application to relevant Government bureaux and departments for comments and there had been local consultations via Southern District Office.
- (b) VTC, in collaboration with SWD, had also been working on the cost estimate of the fitting-out works for submission of a funding application to the Lotteries Fund Advisory Committee (LFAC), as was understood in the meeting held on 11 December 2015. To VTC's understanding, LFAC has agreed to funding the fitting works.

- (c) Upon the issuance of the waiver for change of land use, LWB/SWD would assign the premises to the specified NGO/s.

Q. 24

As revealed by paragraph 4.17 of the Audit Report, continuous professional development (“CPD”) of SSC staff has left much to be desired, with 46% of the staff were found to have attained less than 40 CPD hours in 2012/13 and 2013/14 academic years. Worse still, 6.4% of its staff or 4 staff had not even attained any CPD hours. As VTC said SSC has made conscious efforts in arranging for a wider range of staff development programmes covering areas such as rehabilitation tools, competency-based curriculum, and teaching and learning package development, will VTC provide more details about these efforts? Given the CPD Scheme operates on a mandatory basis, between meeting the recommended 40 CP hours and the voluntary nature of the CPD Scheme, how will VTC strike a balance? What is the VTC’s plan to enhance its monitoring of the attainment of CPD hours by SSC staff, particularly the attainment of the underperformed SSC staff?

Answer (Q. 24)

VTC attaches great importance to staff’s capability building. Under the established policy, teaching staff and some other designated groups of staff are encouraged to attain not less than 40 CPD hours within two consecutive years. Apart from SSC management’s efforts in encouraging staff development, reminders are issued centrally by the Human Resources Division to advise staff to continuously upgrade their knowledge and skills through various training activities. The latest CPD statistics of SSC showed a significant improvement in staff’s participation in the CPD Scheme. For 2013/14 and 2014/15 academic years, 82.5% of SSC staff attained not less than 40 CPD hours, with only 1.6% (one staff) had not attained any CPD hours. VTC will continue to step up measures for monitoring the implementation of the CPD Scheme for all SSC staff. They include drawing up staff development plan for incorporating into staff’s annual appraisal reports, initiating a range of staff training activities by the SSC management to suit staff’s training needs, and making periodic CPD report available to facilitate SSC management’s timely follow-up.

VTC has attended up CPD programmes for SSC staff in 2014/15 and 2015/16 as follows:

2014/2015

- (a) Enhanced scheduling of CPD sessions for individual staff
- (b) “Sharing of good practice” becomes a core item at academic board and management committee meetings.
- (c) In-house sharing and training was also promoted

2015/16

- (a) A designated staff has been assigned to identify training needs and suggest training items for different staff members
- (b) An additional staff has been assigned to support staff's industrial attachment
- (c) Management of staff attachment programmes is better structured to take account of development of staff in both specific and general areas related to their teaching

As regards details of SSC's staff development programmes, they include Teaching and Learning Programmes, IT Skills (Word/ Excel), rehabilitation related training, industrial and trade-specific knowledge, TLP development, handling violent behaviour of students (elementary and advanced/ cultivating a culture of mutual appreciation in the workplace, team building activities, Student Record System training, e-learning with tablet and individual staff's degree programmes.

Q. 25

According to paragraph 4.35 of the Audit Report, VTC said that SSC has taken immediate measures to improve on the stocktaking and recording process and arranged additional staff training to support the improvement measures, will VTC provide details about these measures, including the stocktaking and recording process, the contents and frequency and number of hours of additional staff training? Will additional staff training to be conducted after office hour; if yes, what is the additional expense to be incurred for additional staff training?

Answer (Q. 25)

VTC has taken the following improvement measures:-

- (a) For 2015-16 annual stock taking exercise, all SSC's branches have already conducted annual stocking in December 2015 in accordance with the VTC's Stores Manual and relevant inventory guidelines.
- (b) To enhance stock control and recording, VTC has sourced contractors to develop a stock tracking system with the use of QR code to replace the use of barcode labels.
- (c) To provide support in respect of stocktaking and recording process, procurement and supplies matters, a designated hotline has been set up since 1 Sept 2015 by the Finance & Supplies Division for handling enquiries and addressing matters raised by SSC's branches.
- (d) The Heads of SSC's branches have held meetings on 11 Nov, 1 Dec and 16 Dec 2015 to review the policies on scrutiny and reinforcement on the inventory management of SSC.

- (e) The following two staff training sessions have been organized/scheduled to enhance staff's understanding of inventory management:-

Date	Nature	Parties Involved	No. of training hours
17 Sept 2015	Cross-campus training and sharing of good practice	Supplies staff in SSC and VTPDO	3 hours
13 Jan 2016	Training on inventory, stores and procurement administration	Finance & Supplies Division and VTPDO staff	Half day

Since all staff training is held within office hours, no additional expenses will be incurred.

ACRONYMS AND ABBREVIATIONS

2010 Survey	Environmental Protection Department's survey conducted in 2010 on lunch practices of all schools
AMC	Air Mail Centre
ATC	Air traffic control
ATMS	Air Traffic Management System
Audit	Audit Commission
Audit Report	Director of Audit's Report
B/Ds	Bureaux/departments
BDF	Beat Drugs Fund
BST	Beat Survey Team
C&ED	Customs and Excise Department
C&I	Commercial and industrial
C&SD	Census and Statistics Department
CAD	Civil Aviation Department
CCS	Community care services
CEDD	Civil Engineering and Development Department
CMC	Central Mail Centre
Consolidation Policy	Policy on consolidation of under-utilized primary schools
CRDA	Central Registry of Drug Abuse
CSD	Correctional Services Department
CSSA	Comprehensive Social Security Assistance
DCs	Dutiable commodities
DEVB	Development Bureau
DH	Department of Health
DLOs	District Land Offices
EA Panel	Panel on Environmental Affairs

ACRONYMS AND ABBREVIATIONS

ECF	Environment and Conservation Fund
EDB	Education Bureau
EHC	Elderly Health Centres
EHCVS	Elderly Health Care Voucher Scheme
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
FW	Food Wise
FW Campaign	Food Wise Hong Kong Campaign
GDP	Gross Domestic Product
GL	Government Laboratory
GPO	General Post Office
HA	Hospital Authority
HAB	Home Affairs Bureau
HD	Housing Department
HKJC	Hong Kong Jockey Club
HKP	Hongkong Post
HKPF	Hong Kong Police Force
HSP(DT)	Healthy School Programme with a Drug Testing Component
HyD	Highways Department
IEAPS	Integrated Employment Assistance Programme for Self-reliance

ACRONYMS AND ABBREVIATIONS

IRSD	Infrastructure and Research Support Division of the Education Bureau
IWMF	Integrated waste management facility
JWG	Joint Working Group on Management of Roadside Skips
kg	Kilogram
kWh	Kilowatt-hour
LandsD	Lands Department
LegCo	Legislative Council
LWB	Labour and Welfare Bureau
m ³	Cubic meter
MOM contracts	Contracts to contractors for the management, installation, operation and maintenance of road lights and traffic bollards
MOUs	Memoranda of understanding
MSW	Municipal solid waste
NCSC	Non-civil-service contract
ND	Narcotics Division
NGOs	Non-governmental organizations
OTA	Overtime allowance
OWTF	Organic waste treatment facility
pertinent PSBs	Plastic shopping bags bearing the features of supermarkets, convenience stores or personal-item stores
PlanD	Planning Department
PLBs	Public light buses
POTF	Post Office Trading Fund
PR schemes	Producer responsibility schemes
PRH	Public rental housing

ACRONYMS AND ABBREVIATIONS

PRL	Private Recreational Lease
PSB Phase 1	Phase 1 of producer responsibility scheme on plastic shopping bags
PSBs	Plastic shopping bags
PTG	Private treaty grant
PWDs	Persons with disabilities
PWSC	Public Works Subcommittee
RCHEs	Residential care homes for the elderly
REOs	Regional Education Offices
SA	Service agreement
SAEs	School Allocation Exercises
SEs	Social enterprises
SFS	Support for Self-reliance
SIP	School Improvement Programme
SLA	Service Level Agreement
SOPC	Specialist Out-patient Clinic
SS Programme	Source-separation Programme
SSBs	School sponsoring bodies
SSC	Shine Skills Centre
STT	Short-term tenancy
SVAS	Shine Vocational Assessment Service
SWD	Social Welfare Department
TD	Transport Department
THB	Transport and Housing Bureau
the 2005 Policy Framework	Policy Framework for the Management of Municipal Solid Waste (2005-2014)

ACRONYMS AND ABBREVIATIONS

the 2011 Review	The Administration's review of the targets and action plans to tackle the waste problem in 2011
the 2013 Blueprint	Hong Kong Blueprint for Sustainable Use of Resources (2013-2022)
the 2014 Food Waste Plan	A Food Waste and Yard Waste Plan for Hong Kong (2014-2022)
the Committee	Public Accounts Committee
the Consultant	The consultant appointed by the Environmental Protection Department for the organic waste treatment facility Phase 1 project
the Consultant Study	Consultant Study commissioned in late 2012 on Comprehensive Review on Estimation of Waste Recovery Rate
the Partnership Scheme	Food Waste Recycling Partnership Scheme
the Pilot Plant	Kowloon Bay Pilot Composting Plant
the Scheme	District-based Columbarium Development Scheme
three remaining products	Three producer responsibility schemes on vehicle tyres, packaging materials and rechargeable batteries
TOIL	Time-off in lieu
tpd	Tonnes per day
UNHCR	United Nations High Commissioner for Refugees
VSP	Vacant school premises
VTC	Vocational Training Council
WEEE	Waste electrical and electronic equipment
WRS	Waste Recovery Survey
WS bins	Waste-separation bins