

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.