

**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 2016
AND THE RESULTS OF
VALUE FOR MONEY AUDITS (Report No. 67)**

February 2017

P.A.C. Report No. 67

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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 Kenneth LEUNG

Members : Hon Paul TSE Wai-chun, JP
Hon Steven HO Chun-yin, BBS
Hon LAM Cheuk-ting
Hon SHIU Ka-fai
Hon Tanya CHAN

Clerk : Anthony CHU

Legal Adviser : YICK Wing-kin

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

Procedure

- (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 2016; and
- the results of value for money audits (Report No. 67),

which were tabled in the Legislative Council on 23 November 2016. 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. 64 and 65 and offers the Committee's views on the action taken. These are detailed in Parts 3 and 4 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. 64 of the Director of Audit on the results of value for money audits was laid in the Legislative Council ("LegCo") on 22 April 2015. The Public Accounts Committee ("the Committee")'s Report (Report No. 64) upon the report of the Director of Audit was subsequently tabled on 8 July 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 being laid.

2. **The Government Minute** The Government Minute in response to the Committee's Report No. 64 was laid in LegCo on 28 October 2015. A progress report on matters outstanding in the Government Minute was issued on 31 October 2016. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 13 below.

Buildings Department's actions on unauthorized building works *(Chapter 1 of Part 4 of P.A.C. Report No. 64)*

3. Hon SHIU Ka-fai declared that he was engaged in the trading business of construction materials.

4. The Committee was informed that:

General

- the Administration continued to take proactive and concrete steps to implement the recommendations of the Committee and the Audit Commission ("Audit") on various enforcement actions against unauthorized building works ("UBWs"). In particular, the Buildings Department ("BD") was allocated additional resources for the creation of more posts in the professional and technical grades in 2016-2017 to assist in the enforcement against UBWs. Furthermore, following an overall review by a dedicated Task Force chaired by Deputy Director of Buildings, BD implemented a series of measures to enhance its actions against UBWs. These measures included:
 - (a) reviewing and revising internal guidelines in light of the Committee and Audit's recommendations and current circumstances in order to help staff in their discharge of duties,

- and promulgating the criteria for prioritizing "actionable" rooftop-podium-lane UBWs for enforcement;
- (b) revamping its internal information system to better monitor the registration of outstanding removal orders at the Land Registry ("LR") and the performance of and payments to the consultants engaged for large-scale operations ("LSOs");
 - (c) holding briefing and experience sharing sessions among staff on strategies for applications for closure orders and entry warrants in clearance operations, and on the supervision and monitoring of consultants' performance;
 - (d) expediting enforcement actions to strengthen deterrent effect; and
 - (e) expediting and making substantive progress in clearing outstanding illegal rooftop structures on single-staircase buildings, and in meeting the revised target timeframe for the previous LSOs against different UBWs;

Implementation of government policies on UBWs

- BD completed its review on all relevant internal guidelines and promulgated suitable enhancements in 2015. Staff briefings were held to explain the considerations for the revisions;

Handling of public reports on UBWs

- of the 4 522 public reports mentioned in paragraph 3.5 of Chapter 1 of the Audit Report No. 64, BD had dealt with over 86% of them (all reports associated with structural or higher fire safety concerns had been covered) with actions being taken on the remaining cases with lesser safety risks;

Actions through LSOs

- BD had added a new function in its Building Condition Information System ("BCIS") for producing management reports on a per-building basis that set out the number of removal orders issued and "actionable" UBWs identified under LSOs in each building;

- apart from stepping up measures to monitor consultants' performance, and revising the target completion schedules of LSOs in view of operational experience, BD had developed a new management report template in BCIS to monitor the compliance of contract milestones and submission of deliverables, which would facilitate the assessment on whether the percentage of payments was appropriate. Furthermore, monitoring of progress of LSOs had been escalated to the level of Progress Monitoring Committee chaired by Director of Buildings. Additional manpower and resources had been deployed to expedite the completion of LSOs;

Follow-up actions on removal orders

- monitoring of the registration of outstanding warning notices had been escalated to the Progress Monitoring Committee chaired by Director of Buildings. For past removal orders still outstanding and yet to be registered at LR or the registration date of which had not been recorded in BCIS, the joint review of BD and LR had found that automatic matching and sharing of the data on registration dates was technically infeasible due to lack of a common identifier between the departments' systems. Nevertheless, as and when the order had been complied with or BD took further enforcement action on the case, BD would take the opportunity to update the records in BCIS or register the outstanding removal order at LR;
- for new removal orders, BD had revamped BCIS to add a new interface function with LR such that their registration dates would be automatically updated in BCIS with data from LR, and could be monitored and matched with BD's referral dates;
- of the four removal orders identified by Audit, three were registered at LR in 2015. For the remaining case, BD conducted a thorough investigation and noted that the relevant order was in fact withdrawn in July 2013 and its registration at LR was thus not necessary;
- under BD's UBW enforcement policy, newly built UBWs was accorded high priority as in the case of UBWs constituting obvious or imminent danger to life or property. Persons found to be carrying out UBWs were also among the priority cases for prosecution. Upon review, BD had stepped up measures to enhance the efficiency of initiating prosecutions against breaches of removal orders, e.g. setting out clearer criteria for identifying cases for prosecution, timelier preparation of

prosecution documents. Accordingly, BD had raised its annual target for the relevant prosecutions in the Controlling Officer's Report from 3 000 by 10% to 3 300 in 2016. More cases would be issued with summonses within the coming months to bring a greater deterrent effect;

- BD had reviewed its criteria for selecting cases warranting default works and updated the relevant internal guidelines. Additional manpower and resources had been deployed to expedite the clearance of backlog in following up outstanding removal orders, including the carrying out of default works where warranted. Without compromising public safety, default works were only carried out under very exceptional circumstances as owners should be responsible for promptly removing any UBWs;

System for supporting enforcement actions

- apart from the "batch-record uploading" function added in 2015 that ensured the accuracy of the number of removal orders issued each year, which was included in BD's Controlling Officer's Report, BD had further developed a new function in BCIS that processed all removal orders for issue and automatically captured the essential case data in the system. Such function would be rolled out in three months' time, and should further enhance the accuracy of the relevant items published in the Controlling Officer's Report and BD's website; and

Progress made in implementing the recommendations of the Committee and Audit

- follow-up actions had been completed or on-going to address 12 of the 15 Committee's recommendations and all of the 36 Audit's recommendations. The outstanding Committee's recommendations were:
 - (a) taking actions to ascertain the total number of actionable UBWs not having been issued with removal orders;
 - (b) identifying the manpower and expenditure involved in the enforcement actions on UBWs with a view to assessing the manpower and expenditure required to handle actionable UBWs in an effective and efficient manner; and

- (c) formulating an action plan with timeframe to issue removal orders on actionable UBWs.

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

Public cooked food markets managed by the Food and Environmental Hygiene Department

(Chapter 3 of Part 4 of P.A.C. Report No. 64)

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

Vacancy rates of markets

- Cooked Food Hawker Bazaars ("CFHBs") were designed to serve as a transitional arrangement and hence were not built for long-term use. The Administration had since 1972 stopped issuing new hawker licences under normal circumstances. Barring exceptional circumstances, the Administration would not issue licences to newcomers to fill the stalls left vacant by some hawker licensees who had passed away or surrendered their licences. Hence, a progressive increase in the vacancy rate was inevitable over time, leading to the ultimate decommissioning of a CFHB. Furthermore, taking into account the fact that most of the hawker licensees operating in CFHBs were coming from the grassroots, the Administration had been adopting a relatively accommodating approach and consciously refrained from forced eviction to avoid causing significant social acrimony. Past experiences on the introduction of measures affecting relevant CFHB hawker licensees, such as the closure of a CFHB, showed that close liaison with the affected parties and relevant District Councils would be essential to their smooth implementation;
- the Administration agreed that on the development of public cooked food markets ("CFMs"), it was necessary to ensure the optimal use of scarce land resources. The Administration would have to study how to make more effective use of scarce resources, including those public CFMs with high vacancy rates. In this connection, the Food and Environmental Hygiene Department ("FEHD") had formulated improvement or exit plans for some of the CFHBs, and would continue its work for the rest of them and other CFMs, taking into account their

business viability, community needs, resource availability and competing priorities. FEHD was taking active steps to close some of the CFHBs, and had started to discuss the exit plans with the affected cooked food hawkers of Tai Lin Pai Road CFHB and Yu Chau West Street CFHB. The Planning Department consulted the Sham Shui Po District Council on the proposed rezoning of the site of Yu Chau West Street CFHB from "government, institution or community use" to "commercial use" in June 2015 and the Sham Shui Po District Council members did not raise objection to its closure. FEHD was following up with the Development Bureau, the Planning Department and the Lands Department on the arrangement and timetable of releasing this site together with the adjacent refuse collection point site. FEHD would also discuss the exit arrangements with the affected hawkers of another CFHB within 2015;

- for those cooked food venues located at temporary sites, namely Woosung Street Temporary CFHB, Yu Chau West Street CFHB, Lai Yip Street CFHB, Haiphong Road Temporary CFHB, Reclamation Street CFHB and Stanley Market Open Space Hawker Bazaar, FEHD would conduct regular reviews on their operation and re-development potential, and consider if they should be vacated for other uses. Similar considerations would be given to two other CFMs and one cooked food centre ("CFC") which were also located at temporary sites. FEHD had started to discuss the exit plans with the cooked food hawkers of Yu Chau West Street CFHB. FEHD would endeavour to deliver the plans formulated for individual CFHBs, CFCs and CFMs though being keenly aware that some proposals might trigger from some segments of the community strong sentiments which also needed to be addressed to the extent possible and justified;
- taking into account the views of Audit and the Committee on the future development of public CFMs, FEHD would take a holistic approach in considering and taking forward the future development of public CFMs, with due consideration given to the views of the relevant stakeholders;

Provision of facilities in markets

Fire safety measures

- FEHD had worked with relevant departments to follow up Audit's recommendations to improve fire safety in CFMs and CFHBs. Out of

the 39 CFCs managed by FEHD, 31 were equipped with all the six stipulated fire safety measures, namely, automatic sprinkler system, automatic cut-off device for mechanical ventilating systems, emergency lighting, fire hydrant and hose reel system, manual fire alarm and portable fire extinguisher. Seven CFCs, where the automatic cut-off device for mechanical ventilating system was not necessary since there was no central air-conditioning/ventilating system, were already equipped with the other five fire safety measures. The remaining CFC, i.e. Sham Tseng Temporary Market CFC, was provided with four fire safety measures;

- as at July 2015, all 25 CFMs and 11 CFHBs were provided with portable fire extinguishers. Emergency lighting and manual fire alarm would also be installed in cooked food venues where such devices were lacking. For installation of the remaining three fire safety measures (viz. fire hydrant and hose reel system, automatic sprinkler system and automatic cut-off device for mechanical ventilating system), more time would be needed to resolve the technical issues involved and consult relevant departments. Furthermore, it would be necessary to identify suitable space with adequate structural support in the cooked food venues for the construction of water tanks and the associated plant rooms. The location and operation of the water tanks or plant rooms should also avoid affecting existing installations in the venues. The fire safety design/installation proposal as well as the water supply for the fire safety system would require approval by the Fire Services Department ("FSD") and the Water Supplies Department ("WSD") respectively. FEHD would work with relevant departments to ascertain the technical feasibility of installing these fire safety measures in CFMs and CFHBs concerned;

Electricity supply

- FEHD had approached the Architectural Services Department, the Electrical and Mechanical Services Department ("EMSD") and related power companies to explore the feasibility of upgrading electricity supply system for those public CFMs with sub-standard systems;
- working in collaboration with FSD and EMSD, FEHD had issued fire safety tips and guidelines on electrical safety and use of electrical appliances to operators of CFCs, CFMs and CFHBs. FEHD would ensure that relevant guidelines were properly implemented and updated as necessary. For those stalls in CFC/CFM installed with standalone

air-conditioners without approval, FEHD had issued warnings in accordance with the established procedure. Between March and July 2015, a total of 41 verbal warnings and 61 warning letters had been issued. FEHD would continue to follow up closely on the irregularities, and stall tenants found ignoring these warnings would have their tenancy agreements terminated;

Air conditioning

- the Administration was committed to improving the operating environment of public CFMs. Having regard to the demand of tenants who would like to install air-conditioning system while not losing sight of the interest of the sitting tenants who did not support the installation, the Administration had decided to lower the threshold of the support rate from 85% to 80%, with effect from 1 July 2015. Provided that no less than 80% of the stall operators of a CFM or CFC endorsed the installation and agreed to bear the recurrent costs, FEHD would conduct a detailed technical feasibility study for the installation of air-conditioning system;

Management of market stalls

- FEHD had been conducting necessary inspections and taking appropriate follow-up actions on the cases and irregularities at public CFMs identified in the Audit Report, including the following:
 - (a) FEHD had been closely monitoring the situation of malpractice of occupation of the communal seating area for exclusive use. Daily inspections were conducted to stalls in CFCs/CFMs. If tenants were found in breach of the relevant condition, consideration would be given to terminating their tenancy agreements if three warning letters had been accumulated within a period of six months under the warning letter system;
 - (b) the Department of Justice advised in 1999 that the sale of intoxicating drinks by cooked food stalls of Urban Council's markets (now FEHD's markets) constituted no offence under section 25A of the Dutiable Commodities (Liquor) Regulations (Cap. 109B) if the consumption of the liquor did not take place in the stalls where the intoxicating drinks were sold. The Department of Justice had recently confirmed in writing that the advice still stood. FEHD would closely monitor the sale of

liquor without a licence by cooked food stalls in FEHD's markets and refer dubious cases (such as consumption of the liquor inside the stall area) to the Police for investigation; and

- (c) for unauthorized occupation/unauthorized use of stalls, FEHD would take enforcement action under the Food Business Regulation (Cap. 132X) or issue warning letter for breaches of tenancy agreement as appropriate to curb irregularities such as operating food factory business. FEHD had since February 2015 conducted investigation into nine suspected cases of operating food factory business in cooked food stalls. A total of nine verbal warnings and 17 warning letters were issued to the tenants concerned as at end of August 2015. FEHD would step up inspections and closely monitor the situation. Should non-compliance persist, FEHD would consider terminating their tenancy agreements under the existing sanction mechanism;¹

Management of stall rentals and charges

- although the Administration's proposals in the last couple of years on the market rental adjustment mechanism and the recovery of air-conditioning charges was not supported by LegCo, the Administration would continue its effort in identifying a suitable rental adjustment mechanism and setting up arrangements to recover the rates and air-conditioning charges. As discussed at the meeting on 29 June 2015 of the Subcommittee on Issues Relating to Public Markets set up under the LegCo Panel on Food Safety and Environmental Hygiene, the Administration aimed to revert to the Panel in 2016 with a proposal on the market rental adjustment mechanism and payment of rates and air-conditioning charges;² and

¹ Under FEHD's current departmental policy, it would consider terminating the tenancy agreement of stall tenants in CFCs/CFMs if four offences under any provisions of the Public Health and Municipal Services Ordinance (Cap. 132) or its subsidiary legislation resulting in convictions had been registered against a stall within a period of 12 months. If the offence committed was considered serious in nature, FEHD might consider terminating the tenancy agreement upon one single conviction. Separately, FEHD would consider terminating the tenancy agreement if a stall tenant had accumulated three warning letters resulting from breaches of tenancy clauses/conditions within a period of six months under a warning letter system.

² As at end 2016, the Administration had not provided the Panel on Food Safety and Environmental Hygiene with a proposal on the subjects.

Way forward

- FEHD would:
 - (a) continue to step up its efforts in enhancing the overall management of public CFMs, with due regard to the historical background and the interests of stakeholders;
 - (b) expedite actions, with a view to releasing some of its CFHB sites for redevelopment as soon as possible, while giving due consideration to the interests of hawkers who would be affected by the closure of CFHBs; and
 - (c) explore the redevelopment potential of other public cooked food market sites, particularly those that were located in prime areas, bore high vacancy rates and viability problems, and had limitations in improving the facilities.

7. The Committee wrote to the Food and Health Bureau on 10 January 2017 to enquire on:

- the number of CFMs and CFCs which had met the revised threshold of support rate of 80% from their stall operators for the installation of air-conditioning system with effect from 1 July 2015, and the progress of installing air-conditioning system in these CFMs or CFCs;
- the Administration's views on the effectiveness of lowering this threshold from 85% to 80% for the installation of air-conditioning system in improving the environment of public CFMs;
- the number of CFMs and CFCs which were air-conditioned out of the total number of CFMs and CFCs as at July 2015 and December 2016 respectively;
- whether the Administration had assessed the effectiveness of installing air-conditioning systems in CFMs and CFCs in improving the vacancy rates of such markets/centres. If yes, the assessment result; if no, the reason(s) for not doing so; and
- the average increase in recurrent costs borne by the stall operator after the installation of air-conditioning systems in CFMs or CFCs.

The consolidated replies from **Secretary for Food and Health** and **Director of Food and Environmental Hygiene** are in *Appendix 3*.

8. The Committee wishes to be kept informed of further progress in the implementation of improvement measures, including the installation of additional fire safety measures in public CFMs.

Management of water supply and demand
(Chapter 4 of Part 4 of P.A.C. Report No. 64)

9. The Committee was informed that:

Developing seawater desalination

- to safeguard water security in face of the climate change, the Administration had taken action to develop seawater desalination in Hong Kong. In this respect, WSD engaged consultants to embark on the design and site investigation works for the first stage of the proposed desalination plant at Tseung Kwan O in November 2015. The first stage of the plant would have a water production capacity of 135 million litres per day with provision for expansion to 270 million litres per day to meet 5% to 10% of the fresh water demand of Hong Kong;

Water consumption increases after retrofitting water-saving devices at government facilities

- WSD had completed a review of the 119 government and school premises where there were increases in water consumption after retrofitting of water-saving devices. It was revealed that the increased consumption was primarily due to changes in the user environment after retrofitting of the water saving devices. These changes included major renovation work, construction of green roofs and the subsequent irrigation, water leakages, extra cleansing and increased patronage, etc., which outweighed the saving achieved by using the water saving devices. Where the premises required remedial actions to rectify the defects (like pipe leakages), such actions had been taken;

Fresh water production costs and publication

- starting from 2014-2015, WSD had informed the public of the net and full fresh water unit production costs which included a target return on average net fixed assets through its annual reports;

Per capita domestic fresh water consumption

- apart from promotion of the "Let's Save 10L Water" Campaign in 2014, the Cherish Water Campus Integrated Education Programme launched in 2015 for primary schools and the commissioning of a new permanent Water Resources Education Centre in Tin Shui Wai in 2018-2019 would help foster the water conservation culture amongst students and the general public. Further, WSD had also been making efforts to develop an education kit for kindergartens and would be holding a Water Conservation Week in November 2016 with participation from teachers, students, environmentalists, government departments, trade representatives as well as the public; and

Progress made in implementing Audit's recommendations

- follow-up actions had been completed or on-going to address 7 of the remaining 11 Audit's recommendations. The four outstanding ones were:
 - (a) expediting actions to implement the project for supplying reclaimed water for flushing in Northeast New Territories;
 - (b) formulating a strategy for rolling out the schemes on using grey water for flushing and rainwater for non-potable purposes to other government/school buildings and promoting implementation of the schemes in private buildings;
 - (c) expediting actions to implement the Inter-reservoirs Transfer Scheme; and
 - (d) considering setting a target date for achieving 10 litres of water saving per capita per day.

10. The Committee wrote to WSD on 10 January 2017 to enquire about the latest progress in implementing the supply of reclaimed water for flushing in

Northeast New Territories, the percentage of population using fresh water, salt water and reclaimed water for flushing purpose after implementing this measure, any other measures to reduce the use of fresh water for flushing purpose, and the action plan, scope and timetable in implementing the Inter-reservoirs Transfer Scheme. The replies from **Director of Water Supplies** are in *Appendix 4*.

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

Hong Kong Sports Institute Limited
(Chapter 5 of Part 4 of P.A.C. Report No. 64)

12. The Committee was informed that:

Governance and government monitoring

- the drafted Corporate Governance Manual was approved by the Board of Directors of the Hong Kong Sports Institute Limited ("HKSIL") at its meeting on 11 March 2016 and had been in effect since then;
- the establishment of an internal audit function was approved by the Board of Directors of HKSIL on 11 March 2016 to ensure independence of the internal audit function and its articulation into the HKSIL governance structure;

Administrative issues

- the energy audit for the sports complex had been scheduled to commence in October 2016, taking into account usage information during the peak summer months;

Redevelopment project

- the Administration and HKSIL were consulting relevant departments with a view to devising the way forward on the construction of boat launching facilities, including consultation with the Lands Department regarding land application matters; and

Lease arrangement

- the Administration was reviewing the lease arrangement for the HKSIL Fo Tan premises and aimed to come to a view before the expiry of the current tenancy agreement in March 2017.

13. The Committee wishes to be kept informed of further development on the way forward on the construction of boat launching facilities and the lease arrangement for the HKSIL Fo Tan premises.

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 2015 and his Report No. 65 on the results of value for money audits were laid in the Legislative Council ("LegCo") on 18 November 2015. The Public Accounts Committee ("the Committee")'s Report (Report No. 65) was subsequently tabled on 17 February 2016, 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. 65 was laid in LegCo on 25 May 2016. A progress report on matters outstanding in the Government Minute was issued on 31 October 2016. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 46 below.

Planning, construction and redevelopment of public rental housing flats
(Paragraphs 3 to 5 of Part 3 of P.A.C. Report No. 65)

3. Hon Kenneth LEUNG declared that he was a former member of the Hong Kong Housing Authority ("HKHA"); and Hon SHIU Ka-fai declared that he was engaged in the trading business of construction materials.

4. The Committee was informed that:

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

- HKHA would continue to conduct its annual rolling five-year budget and forecast exercise in accordance with the established mechanism to prudently assess its financial position and future funding requirements. When the Administration and HKHA had reached consensus on the quantum and timing of funding injection, the Administration would seek approval from LegCo Finance Committee ("FC") at an appropriate time for funding to be drawn from the Housing Reserve;

Redevelopment of PRH estates

- the Housing Department had formulated an implementation plan and conducted an assessment on the resource requirements for the next

Comprehensive Structural Investigation Programme which was expected to start in 2018; and

Public Housing Construction Programme 2016-2017 to 2020-2021

- according to the HKHA Building Committee paper of November 2016, the total public housing production by HKHA and the Hong Kong Housing Society in the five-year period from 2016-2017 to 2020-2021 would be 94 500 flats. Based on the abovementioned public housing production rate, it would be a huge challenge to deliver the Administration's 10-year public housing supply target of 280 000 units from 2016-2017 to 2025-2026. HKHA and the relevant government departments would continue to liaise closely to secure sites which were suitable for public housing developments and would consider the best use of the identified sites in order to meet the PRH production targets.

5. 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 5 and 6 of Part 4 of P.A.C. Report No. 65)

6. The Committee was informed that:

- the Administration 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 September 2016 again to reiterate the Administration'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 Administration would continue to pursue an early repayment of the outstanding advances from UNHCR.

7. The Committee wrote to Secretary for Security on 10 January 2017 to enquire whether the Administration had considered taking other more effective actions to recover the outstanding advances or writing off the outstanding advances. The replies from **Secretary for Security** are in *Appendix 5*.

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

Footbridge connections between five commercial buildings in the Central District

(Paragraphs 7 to 9 of Part 4 of P.A.C. Report No. 65)

9. The Committee was informed that the general building plans in respect of the proposed Footbridge A submitted by the owner of Building II in late July 2015 was disapproved by the Building Authority on 29 September 2015 mainly because of insufficient information provided. As at mid-March 2016, the building plan was being revised by the owner of Building II for further submission of the Buildings Department ("BD"). The owner of Building II indicated that he would resubmit the general building plan to BD after obtaining permission from the owner(s) of Building I for the connection works relating to the construction of Footbridge A. The Lands Department ("LandsD"), BD and the concerned departments would continue to follow up with the owners of Building I and Building II on the matter.

10. The location of the proposed Footbridge A is shown in *Appendix 6*.

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

Small house grants in the New Territories

(Paragraphs 10 to 12 of Part 4 of P.A.C. Report No. 65)

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

13. The Committee was informed in the Government Minute which was laid before LegCo in May 2016 that:

- the existing small house policy had been in operation for a long period of time. A review of this policy would inevitably bring into play many controversial and complex issues, involving, among others, legal, environmental, economic and land use planning considerations;
- having regard to the complexities of the issues involved and the fact that the Administration's work priority in the short to medium term was to increase land and housing supply, the review of the small house policy was not a matter of high priority for the time being, and there was no timetable for the task; and
- the Administration would continue to handle the review of the small house policy carefully and judiciously and engage stakeholders as well as the wider community in a constructive dialogue over the relevant issues as and when necessary.

14. The Committee wrote to Secretary for Development on 10 January 2017 to enquire about the Administration's position in resolving problems arising from the small house policy, and the reasons for the little progress made in taking forward the review. The replies from **Secretary for Development** are in *Appendix 7*.

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

16. The Committee recommends that the issue be continued to be followed up by LegCo Panel on Development.

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

(Paragraphs 13 to 15 of Part 4 of P.A.C. Report No. 65)

17. 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 and Royal Hong Kong Yacht Club; Hon Paul TSE Wai-chun declared that he was a member of Hong Kong Jockey Club, Scout Association of Hong Kong and

South China Athletic Association; and Hon Kenneth LEUNG declared that he was a member of the Ladies Recreation Club and Craigengower Cricket Club.

18. 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. The review cut across policy responsibilities of different bureaux and departments ("B/Ds") and involved different types of PRL. Based on the current progress, HAB aimed to complete the review within 2016-2017. HAB would then conduct public/stakeholders' consultations and brief LegCo Panel on Home Affairs on the review findings;

Implementation of the "opening-up" requirement

- HAB planned to place another round of advertisements in the print media in October 2016 so as to encourage eligible bodies to make use of sport facilities operated by PRL lessees;

Monitoring of compliance with lease conditions

- HAB had been monitoring the utilization rates of sports facilities on PRL sites, in particular with regard to the implementation of the opening-up schemes. HAB would continue to conduct annual inspections of PRL sites held by 24 private sports clubs to ensure their compliance with the approved opening-up schemes; and
- LandsD, in consultation with HAB and other relevant B/Ds, continued to follow up on cases of irregularities and suspected non-compliance with lease conditions identified in the Audit Report and would take lease enforcement actions 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.

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

Management of roadside skips

(Paragraphs 16 to 18 of Part 4 of P.A.C. Report No. 65)

20. Hon Steven HO declared that the business he and his family members engaged in might involve skips.

21. The Committee was informed that:

Strategies and action plans for regulating and facilitating skip operations

- the Joint Working Group ("JWG") led by the Environment Bureau/the Environmental Protection Department ("EPD") was taking forward the following short-term measures to better manage and facilitate the operation of roadside skips:
 - (a) identifying suitable sites to be made available to skip operators through tendering on short-term tenancies for storage of "idling" skips and/or facilitating skips to be placed in suitable commercially managed sites of other uses, with a view to reducing the number of skips placed on roads or in public spaces. After considering factors (e.g. the distance away from residential areas, proximity to existing landfills and fill banks so as to facilitate operation of skip trade) and related land use restrictions, JWG proposed to make available land at Siu Lang Shui in Tuen Mun and at Tseung Kwan O Area 137 Fill Bank. JWG consulted the relevant committees of the Sai Kung and Tuen Mun District Councils ("DCs") on the proposed sites in March 2016, and was following up on the suggestions by these committees. For the site at Tseung Kwan O, JWG had drawn up the operation details and management arrangement for short-term tenancy, and was undertaking the preparatory work for the tendering. JWG aimed to complete the preparatory work by end 2016 and offer the site to the trade as soon as possible. As for the site at Siu Lang Shui, JWG was working on the technical issues in connection with the provision of the site, with a view to resolving the issues soonest; and
 - (b) JWG had drawn up arrangements for engaging a term service provider to support enforcement departments to speed up the removal of roadside skips which caused obstruction. The

contract service would be commissioned in tandem with the rolling out of the site at Tseung Kwan O for placing "idling" skips, so as to enhance the management of roadside skips and achieve more effective enforcement at the same time;

Introduction of regulatory system

- JWG had started initial discussion with the trade on suggestions to further enhance the management of roadside skips and facilitate skip operations; and

Progress made in implementing the recommendations of the Audit Commission ("Audit")

- follow-up actions had been on-going to address the following remaining Audit's 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.

22. The Committee wrote to Secretary for the Environment on 10 January 2017 to enquire about the number of "idling" skips on roadside, the B/D which would take up the responsibilities for regulating and facilitating skip operations, and the progress of implementing short-term safety measures proposed by the Transport Department (i.e. improving the colour and outlook of skips such as painting in bright yellow and installing yellow flash lights at night). The replies from **Secretary for the Environment** are in *Appendix 8*.

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

Provision of long-term care services for the elderly

(Paragraphs 19 and 20 of Part 4 of P.A.C. Report No. 65)

24. The subject had been referred to LegCo Panel on Welfare Services for follow up on 24 February 2016, and the Panel noted the referral in its meeting on 14 March 2016. The Committee recommends that the issue be continued to be followed up by LegCo Panel on Welfare Services.

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

New Civil Aviation Department Headquarters

(Paragraphs 23 to 25 of Part 4 of P.A.C. Report No. 65)

26. Hon Steven HO declared that he was a non-executive director of the Airport Authority Hong Kong.

27. The Committee was informed that the Transport and Housing Bureau ("THB") had completed the investigation on the implementation of the new Civil Aviation Department ("CAD") Headquarters project. According to the investigation outcome, there was evidence indicating acts of misconduct by a senior directorate officer of CAD. Pursuant to the evidence gathered from the investigation and in accordance with established civil service procedures, THB had taken summary disciplinary action against the officer concerned. In addition, the investigation revealed prima facie evidence indicating alleged acts of misconduct by a retired directorate officer of CAD. As this officer had already retired, the civil service disciplinary mechanism was not applicable. However, THB had issued a letter to the retired officer concerned and also put the letter on the personnel file, clearly expressing THB's stance on the acts of misconduct alleged against the officer. The letter from **Secretary for Transport and Housing** to the Committee is in *Appendix 9*.

Administration of the air traffic control and related services

(Paragraphs 3 to 5 of Part 5 of P.A.C. Report No. 65)

28. Hon Steven HO declared that he was a non-executive director of the Airport Authority Hong Kong.

29. The Committee was informed that:

Preparation for and assessment of the new Air Traffic Management System ("ATMS")

- CAD conducted a series of stringent acceptance tests on the new ATMS on par with international aviation safety standards and established government procedures, as well as to ensure that the system operation was in compliance with the contract conditions and safety management requirements;
- CAD formulated a comprehensive training plan which consisted of a series of systematic training modules for all air traffic controllers ("ATCOs") and relevant staff, comprising computer-based training, simulator training, shadowing exercises, etc. On completion of the training package, all ATCOs in CAD had to undergo rigorous objective assessment conducted by qualified training and checking officers before they were allowed to operate the new ATMS and proceed to the Phased Functional Implementation ("PFI") to handle live traffic. Before the full commissioning, most of the over 180 ATCOs indicated through the self-assessment that they were confident to use the new system to handle live traffic. The remaining few controllers were either on leave or would proceed to retirement soon;
- THB had been monitoring the progress of ATMS project closely and received regular update reports from CAD. THB was represented at the Steering Committee on ATMS Project chaired by Director-General of Civil Aviation. The Administration also created a supernumerary Administrative Officer Staff Grade B (D3) post in CAD in June 2016, designated as Deputy Director-General of Civil Aviation (2), to strengthen the capacity of CAD's senior management in taking forward various key projects as well as enhancing the overall administrative control and management of the department;
- THB appointed the United Kingdom-based National Air Traffic Services ("NATS") in November 2015 as an independent consultant to advise Secretary for Transport and Housing on readiness of the new ATMS and CAD's readiness. NATS was tasked to conduct four assessments on the new ATMS with details as follows:

- (a) NATS completed its first assessment in March 2016 and concluded that ATMS engineering was safe, stable and reliable, and on a par with good practice in air traffic control centres in other jurisdictions, such as the United Kingdom and Singapore. In the first assessment, NATS also recommended CAD to adopt a PFI approach to allow more time for ATCOs to familiarize themselves with the system's functions and operations, which CAD accepted;
 - (b) in the second assessment, NATS looked at CAD's readiness for PFI. NATS was of the view that CAD had an overall robust, achievable plan and approach to PFI; since the commencement of PFI of the new ATMS on 19 June 2016, its operating time and scope of service coverage had expanded progressively as scheduled for about five months. During the process, both good and adverse weather conditions, as well as day and night operations were covered. Through participation in PFI, ATCOs became more familiar with the operation of the new ATMS;
 - (c) in its third review, NATS assessed CAD's readiness for full transition. NATS confirmed that CAD was ready for the full commissioning of the new ATMS; and
 - (d) arising from the "display degrade" incident which took place on 27 October 2016, THB invited NATS to conduct the fourth assessment on the impact of the incident on the full commissioning of the new ATMS. NATS confirmed the cause of the incident, and was confident that the cause had been identified and the issue satisfactorily resolved. NATS's assessment on CAD's readiness for full transition as previously concluded remained unchanged;
- based on NATS's independent advice and CAD's confirmation on the new ATMS' readiness in all respects, Secretary for Transport and Housing endorsed CAD's recommendation to fully commission the new ATMS on 14 November 2016;

"Display degrade" incident on 27 October 2016

- on 27 October 2016 during PFI, a flight data operator attempted to input into the new ATMS an unusual flight plan, the planned route of

which did not enter the Hong Kong Flight Information Region, primarily for information of colleagues. The unusual flight plan triggered a "display degrade" incident;

- in its assessment of the incident, NATS confirmed that the "display degrade" incident which affected three workstations of the new ATMS without direct communication with flights was an automatic protection mechanism by system design to contain the data mismatch at these workstations. NATS further confirmed that CAD's decision to revert to the old ATMS (i.e. Autotrac I) immediately upon the "display degrade" incident was a decision "as intended", which "allowed CAD to smoothly and safely transition out of PFI and maintain continuous operations without any safety or operational impacts". Moreover, the new ATMS was stable and no "system crash" was observed at any time;
- NATS also reviewed the actions taken by CAD to rectify the problem and was satisfied that enhancement measures, including the software fix and procedural changes, had been duly implemented and verified to both solve the problem and avoid the recurrence. NATS concluded that, with the software fix implemented, any similar unusual flight plan (i.e. without entry to the Hong Kong Flight Information Region) would be processed by the new ATMS for information by ATCOs as intended, without triggering the display degrade mode;

Occurrences which warranted operational optimization of the new ATMS after full commissioning

- since its full commissioning on 14 November 2016, the new ATMS had been providing safe, smooth and orderly air traffic services to flights operating in and out of the Hong Kong International Airport and through the Hong Kong Flight Information Region. The daily average of aircraft movements handled at the Hong Kong International Airport was around 1 070, while the number of overflight daily movements was around 760. Feedback from ATCOs on the new ATMS was generally positive. CAD and THB understood from the airlines that their operations had been smooth since the full commissioning of the new ATMS;
- during the inaugural stage of the new ATMS operation, there were occurrences which warranted operational optimization. For example,

on 15 November 2016, the position of a departing aircraft was temporarily not displayed on the radar screen of one workstation in the new Air Traffic Control Centre while the positions and information of all other flights being monitored by the new ATMS remained intact. There was also a brief occurrence of split tracks (showing two flight tracks of the same aircraft on the screen) which disappeared automatically in a while. Through radar screen updates, the aircraft position was shown again automatically within 12 seconds;

- the phenomenon of aircraft positions temporarily not displayed was not unique to the new ATMS; it was also observed occasionally in ATMSs elsewhere and in Autotrac I. As with other ATMS developers, Raytheon had anticipated and addressed the issue when designing Autotrac III (i.e. the new ATMS). In Hong Kong, no matter ATCOs used the old or new ATMS, they could retrieve the position of an aircraft immediately or avoid split tracks by choosing an appropriate radar signal through the Main System in accordance with the established operational procedure. This procedure involved the switching to the "bypass mode" (in case of the old ATMS) or "local mode" (in case of the new ATMS);
- the phenomenon mentioned above was a relatively minor occurrence which could be addressed through further optimization of ATMS in the light of operational experience. That said, these optimization/updating exercises did not mean any compromise of flight safety. According to NATS's experience, given the complexity of an ATMS, even with all reasonable efforts and endeavours, there could still be possibilities of setbacks during the introduction of a new system. To safeguard aviation safety, CAD had laid down procedures for trained and professional ATCOs to handle different situations. CAD would continue to look into any future occurrence to see if further optimization of the new ATMS could be achieved;

Staff readiness survey

- there were media reports quoting anonymous source who claimed to be an ATCO alleging that CAD compelled ATCOs to change the grading in their self-assessment at staff readiness survey and threatened to demote or not to promote them if they did not comply. Neither CAD senior management nor THB had received any complaint from staff in relation to the conduct of staff readiness surveys. In any case, both

THB and CAD had publicly stated that if individual staff members had any misgiving that their grievances or complaints could not be properly addressed by the established channel, they might approach Director-General of Civil Aviation, CAD senior management or THB direct. Should any misconduct be established upon proper investigation, this would be followed up by the appropriate authorities in accordance with established mechanism;

An incident of flight information not displayed on radar screens

- on 29 November 2016, the radar screens of the new ATMS were unable to display some of the flight information (such as flight callsigns and flight speed) for about 26 seconds, but positions and altitudes of the flight targets were still available on the radar screens. The flight information eventually reappeared automatically. To safeguard aviation safety, ATCOs had suspended the handling of departure flights for 15 minutes during the incident. According to a preliminary analysis of ATMS contractor's on-site engineer, the incident was primarily caused by one of the Flight Data Processors of the Main System, which encountered a problem when archiving data automatically. According to system design, the system automatically switched over to the Main System's another Flight Data Processor. Upon fixing and restarting the problematic Flight Data Processor, the two data processors started to synchronize data. As a result, the flight data could not associate with radar data. According to CAD, while aviation safety was not affected by the incident, it was not satisfactory as the above circumstance should not have occurred due to data archiving of the Flight Data Processor. CAD had asked the senior management of ATMS contractor to come to Hong Kong to follow-up on the incident. ATMS contractor had also been asked to submit an incident report and propose the necessary fix within 48 hours to prevent recurrence in future; and
- in view of the incident, CAD set up an expert panel comprising academics, electronics engineers and representatives of ATCOs to offer objective advice to CAD on the teething issues identified since the commissioning of ATMS. At the same time, THB was approaching NATS for expert advice on what follow-up actions should be taken with a view to ensuring the highest level of aviation safety based on international experiences and best practices.

30. The Committee wrote to Director-General of Civil Aviation on 4 January 2017 enquiring about the overall update on the full commissioning of the new ATMS, and the contingency measures taken/to be taken to facilitate the smooth operation of the new ATMS during the peak travel seasons around Christmas and Lunar New Year. The Committee also requested for a summary of the matters discussed and recommendations/decisions made, if any, by the ATMS Expert Panel at its first meeting on 16 December 2016. The replies from **Director-General of Civil Aviation** are in *Appendix 10*.

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

Government's efforts in managing municipal solid waste
(Chapter 1 of Part 8 of P.A.C. Report No. 65)

32. Hon Steven HO declared that the business he and his family members engaged in might involve recycling.

33. The Committee was informed that:

Reduction in municipal solid waste ("MSW")

- LegCo enacted the enabling legislations for the producer responsibility schemes ("PR schemes") on waste electrical and electronic equipment and glass beverage bottles in March and May 2016 respectively. The Administration updated LegCo Panel on Environmental Affairs ("EA Panel") at its meeting on 23 January 2017 the progress of preparatory works for the implementation of PR scheme on waste electrical and electronic equipment. EPD would continue to expedite actions on the relevant preparatory works so that PR schemes could be fully implemented as soon as practicable;
- the Administration would continue to expedite the preparatory work for MSW charging, and consult EA Panel on the legislative proposals for the enabling legislation in first half of 2017. As part of the community engagement, 14 projects were being implemented to try out different implementation arrangements for MSW charging;

- the Environment Bureau and EPD issued a paper to EA Panel in December 2016 on the progress and initial achievements of the waste management measures promulgated in the Hong Kong Blueprint for Sustainable Use of Resources 2013-2022 ("2013 Blueprint");
- the pre-qualification exercise for the Integrated Waste Management Facility had been completed and four contractors had been prequalified to participate in the next tendering stage;

Recovery of MSW

- the Advisory Committee on Recycling Fund had approved a total of 39 Enterprise Support Programme projects and five Industry Support Programme projects involving a total funding of \$51 million as of August 2016. EPD would monitor the implementation progress of approved projects vigilantly;
- the Administration would publish the per-household-per-month quantities of recyclables collected by individual estates one-by-one once the estates concerned gave their permission on publishing the related figures;

Recycling of MSW

- the Administration had repossessed Lot 4 of EcoPark in August 2016 and would make the lot available for re-letting as soon as practicable;
- EPD had been liaising with the Financial Services and the Treasury Bureau to establish a suitable charging mechanism for temporary use of vacant lots in EcoPark by profit-making organizations;
- EPD was working with LandsD to carry out further evaluation of the sites and consultation with local stakeholders; and

Progress made in implementing the recommendations of the Committee and Audit

- follow-up actions had been completed or on-going to address four of the six Committee's recommendations and 19 of the 23 Audit's recommendations. The six outstanding recommendations were:

- (a) strengthening 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;
- (b) expediting the implementation of the Integrated Waste Management Facility, PR schemes, MSW charging scheme and the Organic Waste Treatment Facility ("OWTF") with a view to meeting the targets set out in 2013 Blueprint or any new blueprint to be developed by the Administration;
- (c) setting revised time targets for implementing PR schemes on vehicle tyres, packaging materials and rechargeable batteries;
- (d) expediting actions to implement PR schemes on waste electrical and electronic equipment and glass beverage bottles;
- (e) strengthening efforts with a view to implementing MSW charging scheme as soon as possible; and
- (f) conducting a post-implementation review of the implementation of the 2005 Policy Framework and informing EA Panel of the review result.

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

35. The Committee recommends that the issues relating to the implementation of the Integrated Waste Management Facility and OWTF, and the post-implementation review of the implementation of the 2005 Policy Framework be referred to EA Panel for follow-up.

Reduction and recycling of food waste

(Chapter 2 of Part 8 of P.A.C. Report No. 65)

36. The Committee was informed that:

Reduction in food waste

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

- the Steering Committee to Promote Sustainable Development of Recycling Industry chaired by Chief Secretary for Administration would coordinate and steer inter-departmental efforts on, among other things, initiatives on food-waste reduction and recycling. In parallel, EPD had been closely coordinating with relevant B/Ds in taking forward the relevant food-waste management initiatives. Under the Food Wise Hong Kong Campaign, EPD had distributed promotional materials, provided advice and support, and organized food wise training sessions for B/Ds;

Need to improve evaluation of the Food Wise Hong Kong Campaign effectiveness

- the baseline survey/audit report and the interim report of the food waste survey and audit for food and beverage sector were finalized in 2014 and 2016 respectively. Compared with the baseline survey results, the interim survey results had shown an improving trend of food-waste reduction in the sector. The final survey/audit had commenced in July 2016 for completion by 2017;
- in May 2016, EPD published general guidelines on methods for estimating food-waste reduction. EPD was also organizing seminars for the signees of the Food Wise Charter so as to facilitate their return of food-waste reduction data;

Food-waste reduction at the Correctional Services Department ("CSD") institutions and hospitals of the Hospital Authority ("HA")

- in addition to three training workshops held in December 2015 for catering staff for sharing experience and good practice of food-waste reduction, CSD had planned to conduct another workshop in October 2016. To further promote the awareness and acceptance of

food-waste reduction best practices among institutional staff and persons-in-custody, over 20 Food Wise Ambassadors had been appointed in correctional institutions since January 2016 to encourage persons-in-custody to participate in a food-waste reduction poster design competition and the Waste No Food Scheme;

- CSD had planned to invite EPD for a briefing on the food-waste problems in Hong Kong and tips for food-waste reduction in 2017. CSD also conducted a poster design competition in early 2016 to promote food-waste reduction. The winning posters had been displayed in all institutions since May 2016;
- the surveys on food-waste quantities of CSD institutions were conducted in August 2015 and 2016 respectively, and would be conducted on a regular basis. CSD would also consider issuing the food-waste quantities of individual CSD institutions through appropriate channels;
- HA Working Group on Food Service had been established in HA Head Office with representatives from all clusters to monitor and oversee follow-up actions in relation to the results of food waste surveys conducted in HA hospitals. Meetings of the Working Group would be held at least biannually with the target to reducing food waste. The last meeting was held in April 2016;
- HA would conduct the Annual Food Waste Survey for all hospitals in August 2016. Publication format on food waste information would be formulated in 2016-2017;

Food-waste reduction at schools

- the survey on lunch practice in schools was completed in April 2016. The Administration would consider carrying out further periodic survey in light of the latest circumstances;
- having evaluated the information collected in the abovementioned survey, the Administration would continue to enhance its work to promote food-waste reduction in schools, including promoting good practice to school management and assisting them to adopt the recommended measures;

- based on the information collected in the abovementioned survey, 43 schools had expressed interest in applying for funding from the Environment and Conservation Fund ("ECF") for provision of on-site meal portioning in their schools. In addition, three meetings with teachers from government and aided schools and the Union of Government Primary School Headmasters and Headmistresses as well as Association of Principals of Government Secondary Schools were arranged in May and June 2016 to encourage schools to adopt on-site meal portioning and other green lunch practice;
- with reference to the information collected in the abovementioned survey, the Administration would review the targets on reduction of using disposable lunch boxes at schools on a regular basis;
- the Administration would invite schools with good performance on food-waste reduction to share their successful experience at the annual Hong Kong Green School Award Presentation Ceremony in October 2016. Commendations would also be given to these schools at the ceremony;
- EDB Circular on "Arrangements for Green Lunch and Reduction of Food Waste in School" advised schools to keep measuring their per-student-per-lunch food-waste quantities in accordance with the Guidelines of Food Waste Measurement issued by EPD, with a view to monitoring improvement made in food-waste reduction. The methodologies of measuring food waste were explained to school teachers in the sharing session of "Green Lunch at Schools" during the Teacher Curriculum Development Training Program in May 2016;
- to maximize the publicity effect, EPD had been promoting green lunch practice in schools through the Food Wise Charter. Invitation letters were sent to all schools in June 2016 to encourage them to participate in the Food Wise Charter. The Administration would evaluate the effectiveness of the actions through the results of periodic surveys on lunch practice in schools;
- EPD had collected the per-student-per-lunch food-waste quantities from schools in 2015-2016 school year and publicized the relevant data on ECF website in July 2016. EPD had conducted visits to those schools reported with lower amount of food waste after implementing

on-site meal portioning, and would publicize their good practices and successful experience on EPD website;

- ECF Secretariat and the Electrical and Mechanical Services Trading Fund had been expediting action to finalize the accounts of completed on-site meal portioning projects funded by ECF;

Recycling of food waste

- the Food Waste Recycling Partnership Scheme had been rolled out to the Yau Tsim Mong District and EPD had engaged two shopping malls (Mira Mall and Langham Place), 27 restaurants and one supermarket to participate in the current phase of the scheme from June to November 2016. EPD had also started engaging the participants of the next phase (in the Sham Shui Po District from December 2016 to May 2017), and had secured the agreement of Festival Walk to participate in the scheme. In addition, EPD had been working with the Food and Environmental Hygiene Department ("FEHD") on two trial schemes on pro-active food waste-collection at FEHD's wet markets. The first three-month trial scheme at the Po On Road Market (including its cooked food centre) was completed in June 2016. The other three-month trial at North Kwai Chung Market commenced on 1 August 2016;

Food-waste recycling in PRH estates

- HKHA would give priority to the promotion of food-waste reduction at source and would continue to partner with green groups to promote food-waste reduction to the commercial tenants in PRH estates. HKHA aimed to raise the awareness of commercial tenants of the quantity and types of waste (including food waste) that they had produced and suggested ways to achieve waste reduction. Waste separation between food and non-food waste would also be promoted. Moreover, HKHA would continue to organize various activities to encourage PRH tenants to reduce food waste. New incentive schemes would be implemented to encourage both the local residents and commercial tenants to reduce food waste;
- HKHA had partnered with non-governmental organizations to undertake a food donation trial at the Nam Shan Shopping Centre and Ching Long Shopping Centre since 27 April 2016 and 9 May 2016

respectively. Daily collection of food donation amounted to 10 to 20 kg in the Nam Shan Shopping Centre and 20 to 55 kg in the Ching Long Shopping Centre. As for food-waste recycling, HKHA would continue to promote awareness and practice among domestic and non-domestic tenants;

Food-waste recycling in private housing estates

- in end 2015, advisory letters to encourage housing estates under the Food Waste Recycling Projects in Housing Estates under ECF funding scheme to increase the participation rate of residents were issued by ECF Secretariat. In the first and second quarters of 2016, EPD carried out surveillance visits to those private housing estates joining the abovementioned projects. Practical tips and promotion materials for boosting participation rate and streamlining the collection logistics were shared with the estates. Non-governmental organizations also helped encourage the respective estates in promotional activities. Commendation certificates were given to the four best performing estates in August 2016;
- as of July 2016, 35 applications under the Food Waste Recycling Projects in Housing Estates funded by ECF had been approved;
- as at April 2016, three out of the four estates identified with idle food waste treatment machines had applied for extended funding support to continue with food waste recycling activities. For the fourth idle food waste treatment machine, ECF Secretariat was identifying another suitable project for transfer;

Future OWTFs

- OWTF Phase 2 was anticipated to commence tendering by end 2016 with a view to commencing operation in 2021, subject to FC's funding approval. For OWTF Phase 3, EPD would take forward its Environmental Impact Assessment and Engineering Feasibility Study in 2017, with a view to commencing operation of the plant as soon as possible subject to resource availability. EPD was working with relevant B/Ds to identify suitable sites in new development areas for additional OWTFs;

Collection of food waste for recycling

- the Administration had received positive responses from some major developers, and about 100 food-waste generating establishments, including shopping malls, hotels and wet markets, had indicated their interest in implementing food-waste source separation and delivery to OWTF Phase 1 upon its commissioning. EPD was arranging training sessions to the commercial and industrial ("C&I") establishments who had expressed interest in participating in source separation of food waste. EPD's service contractor had also started contacting C&I to arrange briefing sessions for the management and front line staff;
- EPD would embark on a feasibility study on food-waste collection and delivery to OWTFs in 2017;

Use of compost

- the contractors of OWTF Phases 1 and 2 would be responsible for ensuring the compost so produced would be put to beneficial use. Disposal of the compost at landfills would be prohibited; and

Progress made in implementing the recommendations of the Committee and Audit

- follow-up actions had been completed or on-going to address six of the remaining 10 Committee recommendations and 31 of the 34 Audit's recommendations. The seven outstanding ones were:
 - (a) developing 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;
 - (b) considering introducing incentives or other effective measures to encourage the transportation of food waste to OWTFs;
 - (c) considering 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;

- (d) reporting 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;
- (e) taking measures to ensure that adequate quantity of food waste was collected and delivered to OWTF Phase 1 for treatment upon its commissioning in mid-2017;
- (f) based on lessons learned from the operation of the Pilot Plant and the food-waste recycling schemes in the private housing and PRH estates:
 - (i) critically assessing if sufficient food waste could be collected for treatment by OWTFs; and
 - (ii) mapping out and implementing an effective system for separating, collecting and transporting food waste from C&I and domestic sectors to OWTFs for treatment; and
- (g) liaising with C&I sector to make suitable arrangements (including provision of suitable vehicles) for transporting food waste to OWTFs.

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

Use and disposal of vacant school premises

(Chapter 3 of Part 8 of P.A.C. Report No. 65)

38. 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.

39. The Committee was informed that:

Identifying vacant school premises ("VSP")

- LandsD was verifying the remaining 108 addresses identified from the stocktaking exercise conducted earlier by EDB which sought to reconcile the records in VSP database and the school registration database. Based on LandsD's findings, EDB would review whether there was a need to include any of them in the new VSP database and handle them accordingly in accordance with the established procedures;
- EDB promulgated in 2016 the "Procedural Manual on Identification, Screening, Allocation and Management of Vacant School Premises", setting out clearly the policy objectives and detailed procedures with regard to the handling of VSP within EDB. This manual had been disseminated to all sections of EDB which might be involved in the handling of VSP. A briefing session had also been held for EDB officers on the detailed arrangements set out in the manual. EDB would arrange re-circulation of the manual on an annual basis and arrange briefing sessions as appropriate;

Allocating VSP for educational or other uses

- the two VSP on private land that had not been earmarked for any use were being handled in accordance with the enhanced mechanism on handling of VSP on private land.¹ EDB was discussing with other relevant departments on the possible way forward and would follow up with the school sponsoring bodies concerned accordingly. As regards the three VSP located on government land that were partially utilized for their current uses, one had been allocated for office use by three education-related organizations and renovation works were being arranged. The remaining two were included in the lists for being considered for school or other educational uses as well as suitable short-term use. No suitable shared uses had so far been identified;

¹ The enhanced mechanism on handling of VSP on private land was listed in Appendices 33 and 34 of the Committee's Report No. 65.

Handling cases of VSP not surrendered

- with regard to the 71 VSP the physical possession of which had not been delivered to the Government after cessation of school operation as at 30 April 2015:
 - (a) 28 did not have a cessation/diminution of user clause under the lease for recovering possession;
 - (b) two were being used;
 - (c) two had been repossessed (one lot and one VSP on government land);
 - (d) 26 were under EDB's purview. As at 1 September 2016:
 - (i) 17 were being used;
 - (ii) five were under temporary waiver granted by LandsD for educational uses;
 - (iii) one had been returned under the central clearing house mechanism; and
 - (iv) three were being followed up by EDB with the school sponsoring bodies concerned and relevant government departments on their future uses; and
 - (e) 13 were under LandsD's purview. LandsD was processing seven proposals submitted for other uses and would continue to take appropriate actions to recover possession of the remaining six VSP;

- there were 77 VSP under LandsD's purview (including 73 VSP that were not put to use as at 30 April 2015 and four VSP which were under EDB's purview at that time but which EDB had subsequently notified the Planning Department in accordance with the central clearing house mechanism for consideration of alternative uses). Amongst these 77 VSP:

- (a) 21 were on private lots that did not have a cessation/diminution of user clause under the lease for recovering possession;
 - (b) one had been modified for other uses;
 - (c) two had been approved for alternative long-term uses pending site possession by the project proponents;
 - (d) six, as at 1 September 2016, were on private land that had a cessation/diminution of user clause in the land lease where LandsD:
 - (i) was processing two proposals submitted for other uses;
 - (ii) had put one repossessed lot on the list of vacant government sites available for application for short-term greening or community use; and
 - (iii) would continue to take appropriate actions to recover possession of three VSP; and
 - (e) 47 VSP were on government land:
 - (i) 22 planned uses/applications were being processed by LandsD;
 - (ii) 22 had been included in the list of vacant government sites available for application for short-term uses; and
 - (iii) three were being followed up to recover their physical possession; and
- EDB was discussing with the relevant school sponsoring bodies and relevant government departments with regard to Case 6² of the Audit

² In this school re-provisioning case, only part of VSP was proposed to be carved out from the private treaty grant site for returning to the Government. However, there were road access and utility connection problems for the carved-out site as it was blocked from the main road, and the other side of the carved-out site was connected to a narrow service road not intended for road traffic and utility connection. This rendered it impractical for the Government to make use of the carved-out site.

Report and VSP arising from reprovisioning which was on both private land and government land. EDB would continue to handle these two cases in accordance with the enhanced mechanism on handling of VSP on private land.

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

Operation of the Hongkong Post

(Chapter 4 of Part 8 of P.A.C. Report No. 65)

41. The Committee was informed that:

Performance of Hongkong Post ("HKP") as a trading fund

- HKP was exploring with relevant B/Ds the scope for granting enhanced flexibility to the Post Office Trading Fund (e.g. with regard to human resource management, financial management and procurement, and accommodation for postal facilities) to facilitate its sustainable operation;

Management of mail processing

Underpayment of postage

- HKP had enhanced the Integrated Postal Services System to capture statistics on the processing of underpaid mail items for monitoring the underpayment trend and identifying high risk areas. Starting from 19 April 2016, instead of collecting the surcharge from addressees and delivering the underpaid/unpaid mail items at the door by delivery postmen, addressees were required to pay the surcharge and collect the underpaid/unpaid mail items at the designated post offices;

Procurement of airfreight services

- HKP informed Central Tender Board of the details of the financial vetting results for the 2016-2017 airmail tender exercise and the justifications for HKP's decision of not requiring the successful tenders to furnish a contract deposit. Central Tender Board noted HKP's

decision and approved the results of 2016-2017 tender exercise. Central Tender Board also reminded HKP to observe the relevant government regulations when reviewing the contract deposit requirements in future airmail tender exercises;

- HKP had developed a proper monitoring mechanism, taking account of applicable procurement regulations and operational practices. A new exception reporting function regarding allotment to contractors for airfreight services was developed for inclusion in the Track and Trace System and released on 30 June 2016 to enhance monitoring by supervisors;

Control and administration of overtime work in HKP

- HKP was conducting a comprehensive review on the standard time for processing and delivering different types of mail items. HKP expected to complete the review by end 2016 and implement the new yardsticks in early 2017;
- as at 31 August 2016, HKP had completed about 27% of the beat surveys to be conducted;
- the Beat Revision Analysis System would be enhanced to adopt global positioning system technology to capture data on the travelling and delivery time of delivery postmen. Trial use of the enhanced function was planned to commence in May to July 2017;
- the Beat Survey Team further increased the number of its monthly supervisory checks to eight beats a month from June 2016. Starting from November 2015, the Beat Survey Team submitted monthly reports on its supervisory checks (including deviation cases and the reasons for the deviations) to the Postal Services Branch Headquarters to facilitate timely follow-up actions;
- to reduce the overtime hours incurred by staff at the Air Mail Centre ("AMC"), HKP re-engineered the work processes at AMC to reduce manual effort and stepped up effort to fill non-civil-service contract vacancies in AMC. As a result, the overtime hours incurred by AMC staff in the period April to July 2016 decreased by 17%, the number of staff working overtime in excess of the monthly departmental ceiling of 60 hours decreased by 68% year-on-year, and the vacancy rate of

non-civil-service contract staff in AMC dropped from 10.6% as at 31 March 2015 to 2.4% as at 31 July 2016;

- to ensure compliance with the service-wide requirement on time-off in lieu ("TOIL"), an exception report could be generated on request to assist monitoring by supervisors starting from January 2016;
- HKP would avoid requiring staff who had taken long sick leave to work long overtime unless they had fully recovered. To guard against possible abuse, HKP would continue to closely monitor the sick leave applications of individual staff and invoked the mechanism under the Civil Service Regulations where warranted;
- the overall uncompensated TOIL balance had decreased to 190 400 hours as at 31 July 2016. The uncompensated TOIL balance of all staff had been contained within the service-wide ceiling of 180 hours, and 82% of the staff who had an uncompensated TOIL balance in HKP as at 31 July 2016 had accumulated less than 50 hours;

Management of postal vehicles

- HKP had reviewed the formula and the assumptions used for calculating the utilization rates of different types of departmental vehicles in HKP, taking account of the prevailing organization of postal operations and the actual vehicle deployment arrangements. The updated calculation methodology took effect from April 2016;
- from June 2015, HKP required the conduct of a cost-benefit analysis for all procurement requests for departmental vehicles to ensure that they were fully justified. In April 2016, HKP completed the installation of global positioning system on departmental postal vehicles in the Speedpost/Parcel teams to enhance performance monitoring of these teams;
- HKP had as far as operationally practicable sought to increase the utilization of the postal vehicles which were identified in the Audit report as having a low utilization;

Management of Central Mail Centre and General Post Office Building

- in the light of the updated operational needs, all the working stations on the fifth floor of Central Mail Centre had been taken up since 1 August 2016; and
- HKP would ensure that for all future changes to the Schedule of Accommodation for the accommodation reprovisioned from the International Mail Centre to Central Mail Centre, where the Property Vetting Committee's approval was required under the Accommodation Regulations, HKP would seek such approval in a timely manner.

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

Burial and cremation services

(Chapter 5 of Part 8 of P.A.C. Report No. 65)

43. The Committee was informed in the Government Minute which was laid before LegCo in May 2016 that:

Supply of public niches

- FEHD had obtained support from the relevant DCs for eight projects under the District-based Columbarium Development Scheme, and had planned to consult five relevant DCs for six projects under the scheme in 2016. A tentative schedule for consulting the relevant DCs of the remaining projects was being worked out. FEHD would take all feasible measures to address concerns of local residents and DC members with a view to persuading them to accept the columbarium development projects in the districts concerned;
- FEHD would consider in advance the best timing for rolling out the allocation process for the Tsang Tsui Project which would be completed in 2019 such that successful applicants for the first batch of niches could deposit their ancestors' ashes in the allocated niches as soon as the new columbarium project was finished;

- from mid-2016 to 2018, 855 niches in the Wong Nai Chung project and 1 250 niches in the Cheung Chau Columbarium Extension by FEHD, 24 924 niches in the Eastern and Southern Districts by the Board of Management of the Chinese Permanent Cemeteries, and some 47 000 niches in private cemeteries managed by religious organizations was expected to be available for allocation. Furthermore, FEHD had about 23 000 temporary urn storage spaces in place to meet the current demand. In the coming two years, FEHD would increase the capacity of its temporary storage facilities to about 50 000 urns;

Burial grounds and cremation services

- upon completion of the full-scale survey of urn graves in the second quarter of 2016, FEHD would consider whether it was necessary to report its result to the relevant LegCo Panel;
- under the present performance pledge of FEHD's cremation service, an applicant might book a cremation session within the next 15 days from the day of application. FEHD considered that the choice of days open to the bereaved families would be reduced if the booking period was shortened, while lengthening the booking period might also lead to higher non-booking rate for cremation sessions on weekdays/non-preferred days. A 15-day booking period was reasonable given the lead time that the bereaved families might need to prepare for the funeral and invite mourners to attend. As such, FEHD had no plans to change the 15-day working period;
- following completion of the re-provisioning works at Cape Collinson Crematorium (Phase II), six new cremators had been put into service by phases since December 2015, leading to an increase in the number of available cremation sessions by over 20%;
- FEHD would continue to promote the use of eco-coffins through publicity in its webpage and distribution of leaflets and booklets at venues of FEHD and other departments/public organizations;
- FEHD would work with the Board of Management of the Chinese Permanent Cemeteries on promotion and publicity activities of co-location of ashes;

Regulation of private columbaria, undertakers of burials and funeral parlours

- under the proposed licensing scheme, FEHD would organize briefings for the trade to facilitate applications to seek various specified compliance instruments under the proposed licensing scheme;
- at present, there were 81 undertakers whose licences did not carry restriction on temporary storage of ashes on the premises. FEHD would impose restrictions through adding licensing conditions upon the renewal of their licences in due course;
- FEHD was closely monitoring the usage of gardens of remembrance and memorial walls, and would endeavour to provide new memorial walls well before the existing plaque spaces were used up; and
- the Civil Engineering and Development Department had commissioned a consultancy study in September 2012, to explore, amongst others, the feasibility of housing columbaria in rock caverns. FEHD would keep in view the progress of the Civil Engineering and Development Department's study on the potential of rock cavern for columbarium development.

44. The Committee wishes to be kept informed of further progress in the implementation of improvement measures, including the regulation of private columbaria.

Protection of revenue on dutiable commodities and motor vehicle first registration tax

(Chapter 7 of Part 8 of P.A.C. Report No. 65)

45. The Committee was informed that:

Licence and permit control of dutiable commodities

- a new Dutiable Commodities System for replacing the existing functions on dutiable commodities licence and permit control under the Customs Control System would be rolled out in January 2017. The Dutiable Commodities System would integrate with the Road Cargo

System, and data on the Customs and Excise Department ("C&ED")'s actions on the control of dutiable commodities would be transferable between the two systems. C&ED had planned to remind traders to input permit numbers of the dutiable commodities into the Road Cargo System in the new Dutiable Commodities System rollout briefing sessions;

- C&ED sent notices to owners of the idle dutiable commodities by registered post in May 2016, requesting them to remove the idle dutiable commodities or re-enter the goods in the warehouse by August 2016. On the advice of the Department of Justice, C&ED would publish the notices in the Gazette and arrange destruction of the unclaimed idle dutiable commodities accordingly;

Enforcement against illicit dutiable commodities and management of seized items

- C&ED had taken measures to improve stock recording and checking of volatile seized goods and their storage, and ensure the compliance of guidelines on safe custody of documentary exhibits;
- of the 483 outstanding cases mentioned in Table 8 of paragraph 3.34(b) and the 141 outstanding seized vehicles mentioned in Table 9 of paragraph 3.35(b) in the Audit report, the seized goods of 480 cases (or 99.4%) and 133 vehicles (or 94.3%) had been disposed of;

Administration and protection of the motor vehicle first registration tax ("FRT")

- C&ED had completed a review on the effectiveness of the measures that had been put in place addressing the serious trade malpractices in the past few years. The review findings shown that:
 - (a) with C&ED's enhanced capability of market research for tax assessment and physical inspection of the vehicles, stepped up efforts to outreach to distributors, as well as enhanced publicity through Television and Radio announcements in the public interests, the malpractice had been much contained. Motor vehicle FRT collected increased from \$8.1 billion in 2013 to \$9.6 billion in 2014 and \$9.8 billion in 2015;

- (b) the number FRT-related cases dropped from 63 in 2012 to 53 in 2015, and the number of serious fraud cases dropped significantly from 32 in 2012 (which involved \$3.5 million tax evaded and 78 vehicles) to six in 2015 (which involved \$0.32 million tax evaded and 10 vehicles); and
 - (c) the suspected cases upon referral from the Transport Department since 2014 were all investigated with prosecution on cases with sufficient evidence within the statutory time bar of six months; and
- in view of the review findings, C&ED considered that there was no need to introduce legislative amendments at this stage. C&ED would continue its efforts in carrying out its work in FRT in order to prevent malpractices, and would keep monitoring the situation. If circumstances warrant, C&ED would consider the need for tightening up the control regime through legislative means.

46. 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 23 November 2016 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. 67 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 seven meetings and two public hearings in respect of the subjects covered in this Report. During the public hearings, the Committee heard evidence from a total of seven witnesses, including one Director of Bureau and one Head of Department. The names of the witnesses are listed in *Appendix 11* 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 chapter of the Director of Audit's Report, are set out in Chapter 2 of Part 7 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.

P.A.C. Report No. 67 – Part 6

*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 2016*

The Committee noted the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2016.

Maintenance and safety-related improvements of public rental housing flats

The Committee held three public hearings on 10 and 23 December 2016 and 13 January 2017 to receive evidence on this subject. As the witnesses have provided voluminous information in response to members' enquiry at the hearings, the Committee has decided to defer a full report on this subject in order to allow itself more time to consider these evidences and the issues raised in the Director of Audit's Report.

A. Introduction

The Audit Commission ("Audit") conducted a review on the funding of universities by the University Grants Committee ("UGC").

2. Hon Abraham SHEK Lai-him declared that he was currently a member of the Court and Council of the University of Hong Kong, and a member of the Court of The Hong Kong University of Science and Technology.

Background

3. In Hong Kong, there are eight universities funded by UGC¹ (all universities mentioned hereinafter refer to UGC-funded universities). UGC was established as a non-statutory advisory body in 1965. According to the Controlling Officer's Report of UGC in the annual Estimates of the Government, UGC:

- advises the Government on the development and funding of higher education in Hong Kong;
- advances the quality of teaching and learning, research and knowledge transfer at the universities; and
- monitors the efficiency and cost-effectiveness of the universities' UGC-funded activities.

4. According to the UGC's Notes on Procedures ("NoP"):²

- the mission statement of UGC is to work with Institutions, the Administration and the Community to promote excellence in the higher education sector, with a view to establishing Hong Kong as the education hub of the region and to nurturing high quality people to promote the economic and social development of Hong Kong;

¹ The eight universities are, in alphabetical order, City University of Hong Kong; Hong Kong Baptist University; Lingnan University; The Chinese University of Hong Kong; The Education University of Hong Kong; The Hong Kong Polytechnic University; The Hong Kong University of Science and Technology; and the University of Hong Kong.

² UGC's NoP explains and sets down the major operational procedures of the interplay between UGC, the universities and the Government, as represented by the Education Bureau. NoP is for observance by responsible officers of the universities, the UGC Secretariat and the Government. NoP could be accessed on the homepage of UGC.

- UGC has neither statutory nor executive powers; and
- UGC mediates interests between the universities and the Government. On one hand, UGC safeguards the academic freedom and institutional autonomy of the universities, while on the other it ensures value for money for the taxpayers.

5. UGC has under its aegis two non-statutory advisory bodies:

- Research Grants Council ("RGC"), which is responsible for advising the needs of the institutions of higher education in Hong Kong in the field of academic research, inviting and receiving applications for research grants, studentships and post-doctoral fellowships and approving such applications, and monitoring the implementation of such grants;³ and
- Quality Assurance Council ("QAC"), which is responsible for advising on quality assurance matters in the higher education sector in Hong Kong, including the conduct of quality audits of the universities.

6. UGC is supported by the UGC Secretariat, which is a government department and headed by Secretary-General of UGC. The Education Bureau ("EDB") is the policy bureau of the UGC Secretariat. Recommendations on recurrent grants to the universities are submitted by UGC, through Secretary for Education, to the Chief Executive in Council for endorsement. For the 2016-2017 financial year, the estimated expenditure of UGC amounted to \$17,966 million (\$144 million for the UGC Secretariat's expenses and \$17,822 million for grants/reimbursements provided to the universities).

7. The Committee held two public hearings on 12 December 2016 and 6 January 2017 to receive evidence on the findings and observations of the Director of Audit's Report ("Audit Report").

³ See Chapter 6 of Part 7 of this Report for "Funding of academic research projects by Research Grants Council".

The Committee's Report

8. 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);
- Administration of recurrent grants (Part B) (paragraphs 11 to 27)
- Administration of capital grants (Part C) (paragraphs 28 to 43);
- Governance and other administrative issues (Part D) (paragraphs 44 to 64); and
- Conclusions and recommendations (Part E) (paragraphs 65 to 67).

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 public hearing held on 12 December 2016, the summary of which is as follows:

- the Administration accepted the recommendations made in the Audit Report;
- the Administration considered that the independent structure, organization and operational arrangements of UGC could basically serve the needs and long-term interest of Hong Kong's higher education sector and contribute to institutional autonomy;
- with a view to attracting outstanding local and non-local students to advance their studies in Hong Kong, the Administration had implemented the following measures: the establishment of a \$1 billion Hong Kong Special Administrative Region Government Scholarship Fund; 10 targeted scholarships had also been offered each year to first-year non-local students from countries from the Association of Southeast Asian Nations, India and Korea; and 10 additional scholarships were made available for first-year non-local students from Indonesia to pursue publicly-funded full-time degree programmes in Hong Kong; and

- on the university tuition fee review, the Administration had made it clear in 2016 that the indicative tuition fee level would be maintained at the existing level and would not be adjusted during the 2016-2019 triennium. The Administration had invited UGC in June 2015 to launch a review of the tuition fee policies in other jurisdictions and propose options to EDB with due regard to the situation in Hong Kong. The consultancy report endorsed by UGC was submitted to EDB in late September 2016. EDB was carefully studying the findings of the report and would decide the way forward for the 2019-2020 academic year (all years mentioned hereinafter refer to academic years unless otherwise stated) and beyond in due course.

The full text of Secretary for Education's opening statement is in *Appendix 12*.

Opening statement by Secretary-General of the University Grants Committee

10. **Dr Richard T ARMOUR, Secretary-General of UGC** made an opening statement at the beginning of the Committee's public hearing held on 12 December 2016, the summary of which is as follows:

- UGC broadly accepted Audit's recommendations. The UGC Secretariat would, in consultation with UGC, take appropriate measures to implement them for continuous improvement in the various areas of work of UGC;
- both UGC and the universities considered that the provision of hostel places in particular for both local and non-local students was a key factor in promoting internationalization and campus harmony. UGC had been working very hard to pursue funding from the Government;
- up till the end of October 2016, 10 more final accounts for works projects had been closed with 94 outstanding. The UGC Secretariat would take appropriate measures in consultation with the Architectural Services Department ("ArchSD"), UGC's technical advisor, and the universities with a view to finalizing the project accounts as soon as possible;
- UGC supported Audit's recommendation to further encourage the universities to continue their efforts to attract more non-local students, in particular those other than Mainland students. Internationalization of the universities might come in many forms, including international

strategies, curriculum development, international networks, non-local student recruitment and integration, international faculty, etc. UGC had all along been encouraging universities to internationalize in ways that fitted their own institutional context; and

- to continue to attract top university leaders to serve on UGC's committees on a voluntary basis, UGC believed that the standard of passage arrangements and hotel accommodation offered should be commensurate with their standing and broadly similar to other international bodies competing for their time, and should not deter candidates from accepting an offer of appointment.

The full text of Secretary-General of UGC's opening statement is in *Appendix 13*.

B. Administration of recurrent grants

11. In Table 3 in paragraph 1.12 of the Audit Report, the actual recurrent grants to the universities had an overall increase of 52.4% (ranging from 37.3% to 60.8% for individual universities) from 2010-2011 to 2014-2015. However, according to Table 1 in paragraph 1.10 of the Audit Report, the total number of students (full-time equivalent)⁴ enrolled in UGC-funded programmes had only increased by 32.6% (ranging from 14.1% to 42% for individual universities) during the same period. The Committee sought explanation for the relative higher increase in the recurrent grants.

12. **Secretary for Education** explained at the public hearing that the increase in the recurrent grants was due to the following reasons:

- the implementation of the New Academic Structure for Senior Secondary Education and Higher Education with normative four-year undergraduate academic structure since 2012-2013;
- increase in the articulation places for sub-degree students to the last two years of undergraduate programmes from 2 000 to 4 000; and
- salary adjustments for staff of the universities.

⁴ Full-time equivalent is a unit used for measuring the number of students to report the approximate size of a university. A full-time equivalent of 1.0 is equal to a full-time student while 0.5 signals half a study load (e.g. the study load of a part-time student).

13. **Secretary-General of UGC** supplemented at the public hearing that the increase in recurrent grants for the universities was also due to the change in weightings among the types of courses taken up by students in the universities. Some universities had moved into more expensive disciplines, such as medicine.

14. According to Table 3 in paragraph 1.12 of the Audit Report, the actual recurrent grants to the universities amounted to \$16,072 million for 2014-2015, which was an increase of 52.4% over 2010-2011. The Committee also noted from Table 6 in paragraph 2.8 that the grant approved for the same year by the Legislative Council ("LegCo") in January 2012 was \$14,321 million and enquired about the difference.

15. **Secretary-General of UGC** explained at the public hearings and supplemented by his letter of 23 December 2016 (*Appendix 14*) that the 2014-2015 recurrent grants for the universities (\$14,321 million) were accepted by the LegCo Finance Committee ("FC") in January 2012, as part of UGC's recommendation on recurrent funding for the universities in the 2012-2015 triennium. The accepted amounts were at 2011 price level. Therefore, they were different from the actual 2014-2015 recurrent grants (\$16,072 million), which had incorporated, amongst other things, the adjustments of the relevant portion of the recurrent grants based on the civil service pay adjustments for the period 2012 to 2015 (effective rate of about 14%).

16. In this connection, the Committee enquired about the salary adjustment mechanism and determination of salary scale of staff in universities, and whether the civil service pay adjustment rate would be adopted by the universities in the salary adjustment of their staff. **Secretary-General of UGC** replied in his letter of 23 December 2016 (*Appendix 14*) that:

- the universities had their own established mechanisms in determining the remuneration packages and salary adjustments of their staff, and were accountable for their decisions in this regard. Generally speaking, the remuneration of staff was determined with reference to factors such as available market information, pay information of Hong Kong's public sector and the international academic sector, qualification and experience of the staff, civil service pay scale, and internal salary relativity, etc. Benchmarking review of the remuneration packages with local and international practices was conducted by some universities with a view to ensuring their market competitiveness;

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- as regards the salary adjustment mechanism, based on information provided by the universities, some universities would make reference to the civil service pay adjustments as well as the available market information in considering the salary adjustment of staff in relevant years, though the actual salary adjustment for individual staff was based on the performance assessment of the staff; and
- UGC did not seek to control for funding purposes actual expenditure on salaries and benefits in the universities since the delinking of institutional salaries from the civil service salary scales in 2003. That notwithstanding, at the time of allocation of the supplementary grants arising from the civil service pay adjustments, the universities were reminded that such additional subventions were meant to allow room for salary adjustment for their staff.

17. The Committee enquired about how UGC monitored the financial statements of the universities. In reply, **Secretary-General of UGC** explained at the public hearing that the grants to the universities were one-line budget. The three components, namely, teaching element, research element and professional activity element, formed the total budget. The universities could decide to apportion the spending on each component. That was the heart of institutional autonomy. UGC had to assure that the university councils were monitoring the management and expenditure through good solid financial transparency and robust governance inside universities. UGC reviewed the universities' financial statements and various certificates of audit as required.

18. The Committee noted from paragraph 2.12 of the Audit Report that in 2009-2010, UGC introduced a new recurrent earmarked funding for the universities to strengthen and broaden their endeavours in knowledge transfer.⁵ In the 2016-2019 triennium, this funding for knowledge transfer amounted to \$62.5 million per annum. The Committee enquired about the factors considered by UGC in setting the allocation of this funding for each university.

19. **Secretary-General of UGC** replied in his letter of 23 December 2016 (Appendix 14) that since 2009-2010, UGC had introduced an additional stream of

⁵ According to UGC, knowledge transfer is the systems and processes by which knowledge, including technology, know-how, expertise and skills are transferred between higher education institutions and society, leading to innovative, profitable or economic or social improvements. See paragraph 2.12 of the Audit Report.

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recurrent earmarked funding for universities to build up their capacity and broaden their endeavours in knowledge transfer. The Research Group under UGC decided in April 2016 to retain the funding mechanism in use in the 2012-2015 triennium, i.e. the metrics-based formula, for the 2016-2019 triennium. The metrics-based formula for allocation to each university in the 2016-2019 triennium was as follows:

$$\text{Share of Funding} = \$62.5 \text{ million} \times \frac{T_a + 4R_a}{\sum(T_n + 4R_n)}$$

where

T: teaching element of the UGC Block Grant in the funding year

R: the sum of the research element of the UGC Block Grant in the funding year and the total funding received from the RGC in the preceding funding year

a: the relevant amount for the university concerned

n: sum of the relevant amount for all universities

20. As regards a review on changing the way knowledge transfer funding was to be provided to the universities for the next triennium (2019-2022), **Secretary-General of UGC** explained in the same letter that the Research Group agreed in September 2016 to consider changing the way knowledge transfer funding was provided to universities for the 2019-2022 triennium, e.g. by integrating the earmarked knowledge transfer funding into the Block Grant to universities. The Secretariat would review the earmarked knowledge transfer funding allocation in due course. The universities would be informed well in advance should there be any major changes to the knowledge transfer funding arrangements.

21. According to paragraph 2.25 of the Audit Report, UGC had laid down a number of enrolment rules in NoP that allowed the universities to have some flexibility in enrolling students. Noting from Table 12 in paragraph 2.26 of the Audit Report in which there were cases of non-compliance of some universities with the enrolment rules, the Committee asked about the reasons for the over-enrolment and whether it would have any impact on the teaching quality.

22. **Secretary-General of UGC** said at the public hearing that enrolment planning was difficult and UGC had been tolerant. As no additional funding was involved for over-enrolment, it was not a bad thing provided that the universities were clear that the marginal value exceeded the marginal cost. He also supplemented in his letter of 23 December 2016 (Appendix 14) that:

- on the rule "Enrolment of non-local students should not exceed 4% in Chinese medicine programmes" (item 4 of Table 12 of the Audit Report) for which the university exceeded the 4% limit by 20.1%, the enrolment of 20.1% above the limit in the 2012-2015 triennium meant that on average the university admitted 6 students above limit out of 30 per year. Similarly, for the same university, the enrolment of 9.6% above the limit in the 2009-2012 triennium meant that on average the university had admitted 2.9 students above the limit out of 30 per year;
- on the issue of over-enrolment of "No over-enrolment in Chinese medicine programmes" (item 5 of Table 12 of the Audit Report), for the university concerned, the over-enrolment of 5.7% in the 2012-2015 triennium meant that on average 1.7 students were admitted above limit out of 30 per year. Similarly, for the other university, the over-enrolment of 10.2% in the same triennium meant that on average 2.6 students were admitted above limit out of 25 per year. Also, in the 2009-2012 triennium, the over-enrolment of 1.9% meant that on average 0.5 student was admitted above limit out of 25 per year; and
- for the above cases, the absolute number of intake/enrolment above the limit was relatively small, while on the other hand, the corresponding approved student number target for that particular programme was also small and hence the percentage might seem high.

23. The Committee noted from paragraph 2.30 of the Audit Report that there was an example that the enrolments of a stream of teacher education programme had been consistently lower than 50% of the approved student numbers since 2010-2011. In reply to the Committee's enquiry about how UGC monitored and handled cases of under-enrolment, in particular the abovementioned case, **Secretary-General of UGC** explained in his letter of 23 December 2016 (Appendix 14) that:

- action had already been set out in paragraph 3.12 of NoP.⁶ UGC had adhered to the laid-down procedures i.e. regular monitoring of actual

⁶ Paragraph 3.12 of NoP states that modest under-enrolment is allowed on the understanding that the institutions will make every effort to offset under-enrolment in one programme by over-enrolment in others, therefore maintaining the effective use of public resources. To safeguard the use of public funds, under-enrolment across a whole institution exceeding 4% of the student number targets will lead to a claw back of funding, as considered by UGC as appropriate. For programmes subject to specific manpower requirements, the student number targets should be met as far as possible. A general reference of 4% under-enrolment will be tolerated, and UGC may decide on appropriate action on warranted under-enrolment situations having regard to the merits of individual cases.

enrolments, for dealing with cases of non-compliance with the enrolment rules. For example, UGC considered that there was serious under-enrolment of the then Hong Kong Institute of Education in 2007-2008 and action was taken to claw back funding;

- in December 2014, EDB expressed to UGC its concern on deviations from the approved student number targets in various streams of teacher education programme. Accordingly, EDB requested UGC to consider treating various streams of teacher education programmes as distinct manpower-planned programmes for the purpose of applying UGC's enrolment rules, and therefore the relevant student number target of each stream needed to be met (hereinafter referred to as "sub-cap proposal"). Not all of these were within the control of the institution concerned since for certain short or part-time courses, student numbers depended on schools releasing serving teachers; and
- upon finalization of the implementation details of "sub-cap proposal" in consultation with EDB and the teacher education universities, UGC wrote to the teacher education universities requesting them to take into account the Government's recommendation that the various streams of teacher education programmes be treated as distinct manpower-planned programmes for the purpose of applying the sub-caps on enrolment for manpower-planned programmes. UGC informed the teacher education universities, vide a letter of 20 October 2016, of the implementation details taking into account the views expressed by the teacher education universities, including the exemption from the sub-cap proposal for programmes with a small intake.

24. On the subject of non-compliance with the enrolment rules by the universities, **Secretary for Education** supplemented in his letter of 23 December 2016 in *Appendix 15* that:

- while responsibility to ensure universities' compliance with enrolment rules rested with UGC, EDB had from time to time requested the UGC Secretariat to provide relevant information about enrolment, and had provided advice/taken follow-up actions as appropriate in response to such information. Examples of such matters were set out as follows:

Enrolment of local and non-local students

- (a) EDB had taken note that, prior to 2016-2017, the universities might enroll non-local students to their UGC-funded sub-degree, undergraduate and taught postgraduate programmes up to 4% within and 16% outside the approved UGC-funded student numbers by study level. In other words, UGC-funded places were primarily, but not solely, used to admit local students. To address the community's concerns that non-local students were taking up precious public resources at the expense of local students, EDB sought the Chief Executive in Council's approval in December 2014 to revise the policy of enrolment of local and non-local students, such that starting from 2016-2017, all new non-local students should only be admitted through over-enrolment capped at 20% of the approved UGC-funded student numbers. To effect the policy change, EDB also wrote to UGC, requesting it to make corresponding changes to the enrolment rules for compliance by the universities; and

Application of under-enrolment rule to teacher education programmes

- (b) EDB had taken note that there were significant deviations between the actual enrolment figures and the approved student number targets in a few individual streams of teacher education programmes. In response, EDB wrote to UGC in December 2014, suggesting that the various streams of teacher education programme should be treated as distinct manpower-planned programmes for the purpose of applying UGC's enrolment rules, and therefore the relevant student number target of each stream needed to be met.

25. The Committee enquired about the tuition fees payable by non-local students of UGC-funded undergraduate programmes and the corresponding cost recovery rates, and the factors taken into account when setting the levels of tuition fees.

26. **Secretary for Education** explained at the public hearing and supplemented in his letter of 23 December 2016 in Appendix 15 that:

- in 2003, the Administration accepted UGC's recommendation that, as a general rule, UGC-funded institutions should charge non-local students of UGC-funded undergraduate programmes at a level which was at least sufficient to recover all additional direct costs, and that the tuition fees should in no circumstances be lower than the fees applicable to local students (i.e. \$42,100 per annum). Institutions were supportive of the initiative, and agreed that the tuition fees for non-local students should be at least \$60,000 per annum. While the tuition fee for local students had been maintained at \$42,100 per annum since 1997-1998, institutions had been increasing the tuition fees payable by non-local students over the years. In 2016-2017, the tuition fees payable by non-local students of UGC-funded undergraduate programmes ranged from \$110,000 to \$146,000 per annum; and
- on the conditions that all non-local students of UGC-funded undergraduate programmes were admitted through over-enrolment and the tuition fees payable by them were at least sufficient to recover all additional direct costs, institutions enjoyed the autonomy in setting the tuition fee levels as they saw fit, having regard to their own circumstances. Neither the Administration nor UGC prescribed a target cost recovery rate.

27. In reply to the Committee's enquiry about the tuition fees payable by non-local students of UGC-funded postgraduate programmes, **Secretary for Education** advised in his letter of 23 December 2016 in Appendix 15 that:

- at present, there were two types of UGC-funded postgraduate programmes, namely taught postgraduate programmes and research postgraduate programmes. Similar to non-local students of UGC-funded undergraduate programmes, non-local students of UGC-funded taught postgraduate programmes had to be admitted through over-enrolment and they were required to pay tuition fees at a level which was at least sufficient to recover all additional direct costs, and that the tuition fees should in no circumstances be lower than the fees applicable to local students (i.e. \$42,100 per annum). In 2016-2017, the tuition fees payable by non-local students of UGC-funded taught postgraduate programmes ranged from \$110,000 to \$146,000 per annum;
- as regards research postgraduate students, they played an important role in the higher education sector. Not only did they participate directly in a large number of research activities, but they also took part

in the teaching activities of institutions (such as acting as teaching assistants, laboratory administrators, etc.) as well as served as a bridge between the undergraduates and the teaching staff, thereby contributing to the teaching and learning as well as knowledge transfer in institutions;

- given the consideration in the last inset, and with a view to boosting the research capability in Hong Kong through attracting high quality talents from around the world, the universities currently admitted research postgraduate students on a merit basis and charged them a uniform tuition fee of \$42,100 per student per year,⁷ taking into account the students' academic results and research capability, regardless of their place of origin. This practice helped ensure that the best candidates irrespective of place of origin were engaged to boost the level of research and contribute to the teaching and learning as well as knowledge transfer work in institutions, thereby safeguarding the effectiveness of public spending; and
- admission of outstanding research talents, regardless of their countries of residence, to research postgraduate programmes on a merit basis by the universities was in line with the common practice of the international academic community. In 2015-2016, the number of local applications for UGC-funded research postgraduate programmes was 1 868, which was submitted by 934 local applicants (estimated number).⁸ 535 of these local applicants were eventually admitted, which accounted for 57.3% of the estimated number of local applicants or 28.6% of the number of local applications. As regards the estimated remaining 42.7% of local applicants, they included those who eventually declined admission offers from the universities in order to pursue other opportunities, as well as those who were not given offers having regard to their academic credentials. In contrast, the number of applications for UGC-funded research postgraduate programmes by non-local students was 16 900 in 2015-2016. The

⁷ It should be noted that paragraph 3.11 of the UGC NoP provides that, subject to prior notification to UGC and in case institutions choose to over-enrol research postgraduate students beyond the 40% cap, the additional full direct costs incurred (defined as all direct marginal costs incurred arising from the over-enrolment, including studentships, and additional costs for student supervision, cost of space provided etc) should be met from non-UGC/RGC funds, including higher tuition fees payable by the over-enrolled students.

⁸ The universities estimated that, on average, each local applicant would submit two applications for admission to UGC-funded research postgraduate programmes.

number of non-local intakes in the same year was 1 853, accounting for 11% of the non-local applications.⁹

C. Administration of capital grants

Assessment of academic space

28. The Committee noted from paragraphs 3.15 and 3.16 of the Audit Report that the space requirement formulae were developed by a consultant in 2000 and were last reviewed in 2006. Given the changes and developments in the higher education sector in the 10 years since 2006, the Committee asked when the next review on the space requirement formulae would take place.

29. **Secretary-General of UGC** advised in his letter of 4 January 2017 (*Appendix 16*) that the space requirement formulae for assessing the universities' academic space needs were reviewed and updated in 2006. In the process of the 2006 review, the academic space requirements for the "3+3+4" new academic structure, whole person development and internationalization had already been taken into account. The universities had been informed of the need to consider reviewing the space requirement formulae. The universities would be further consulted and invited to provide feedback on the need for a review later. Should UGC decide to conduct the review, it might commence in 2017 and might take about two years to complete.

30. According to paragraph 3.19 of the Audit Report, there were differences between the academic space inventory records maintained by UGC and those submitted by the universities. According to paragraph 3.21 of the Audit Report, the UGC Secretariat had not conducted any space utilization surveys since 2006. In reply to the Committee's enquiry on the finalization of the space inventory updating exercise and the discussion with the universities on conducting space utilization surveys, **Secretary-General of UGC** advised at the public hearing and supplemented in his letter of 4 January 2017 (*Appendix 16*) that the UGC Secretariat had already completed the reconciliation of the space inventory records with the universities. Both UGC and universities' records had been updated appropriately. As regards space utilization survey, the universities had been advised to consider the need to

⁹ The number of applications submitted by non-local applicants considerably varied, and hence universities were unable to estimate the number of non-local applicants on the basis of the number of non-local applications received.

conduct such survey. The universities would be further consulted and invited to provide feedback on the scope and way to conduct the survey shortly.

Shortfall in student hostel places

31. According to paragraph 3.6 of the Audit Report, all undergraduate students who had enrolled in UGC-funded programmes should be given the opportunity to stay in student hostels for at least one year of their courses. In addition, the following students who had enrolled in UGC-funded programmes should be provided with student hostel places:

- non-local students;
- research postgraduate students; and
- undergraduate students whose daily travelling time exceeds four hours.

The Committee enquired about:

- total and successful applications for hostel places by categories of students; and
- justifications to set a criterion for providing students whose daily travelling time exceeding four hours.

32. **Secretary-General of UGC** advised in his letter of 4 January 2017 (Appendix 16) that:

- UGC calculated the provisions of publicly-funded student hostels to universities in accordance with the criteria set out in the last paragraph. That said, the actual allocation of student hostel places to individual students was a matter for universities as autonomous bodies. The universities allocated their hostel places (including the publicly-funded, privately-funded and temporary hostel places) to their students (local and non-local students enrolled in the UGC-funded or non-UGC funded programmes, as well as exchange students) in accordance with their own sets of criteria and procedures. Generally speaking, apart from the criteria set out in the last paragraph, universities also took into account the actual number of applications, merits of individual applicants (e.g. contributions in extra-curricular activities) and

compassionate grounds, etc. in assessing the applications. The number of total and successful applications for hostel places by students enrolled in UGC-funded programmes, with breakdown by category of students under paragraph 3.6 of the Audit Report, for the past five years is tabulated at *Appendix 17*; and

- UGC considered that students' choice of universities should be based on the quality of education and the disciplines available, and should not be unduly influenced by the proximity of their homes to the universities. Therefore, students who spent excessive travelling time should be provided with hostel places. According to the universities concerned, around 2.5% of the local undergraduate students needed to travel more than four hours daily in 2015-2016. Albeit there was a continuous request to meet the hostel shortfall under the existing criteria, UGC was not aware of a request for review of the criteria themselves, including the criterion concerned with a view to shortening the travelling time from four hours to, say, three hours.

33. On the issue of shortfall in student hostel places, **Secretary-General of UGC** advised in his letter of 23 December 2016 (Appendix 14) that both UGC and the universities considered that the provision of hostel places for both local and non-local students according to the established policy was a key factor in promoting internationalization. If a hostel place was not provided to non-local students, no matter whether they were Mainland or non-Mainland students, it would inevitably have an impact on their willingness to study in Hong Kong as they would have to find their own accommodation outside campus during their study. Moreover, hostel life was very important to many non-local as well as local students as it was an essential part of higher education – providing them with an environment conducive to learning, and allowing greater social interaction that enriched personal development as well as the learning experience generally. Such learning experiences could not be replicated easily in rented accommodation outside campus. That said, it must also be noted that shortage of hostel places was not the only determining factor when non-local students considered their study destinations. They would take into account other factors as appropriate.

34. The Committee noted with concern from paragraph 3.7 of the Audit Report that in 2015-2016, there was a total shortfall¹⁰ of 8 660 student hostel places for the universities and asked how EDB and UGC would address such shortfall.

¹⁰ Shortfall is the difference between the student hostel place requirement of the universities and the UGC's existing provision.

35. **Secretary-General of UGC and Secretary for Education** pointed out in their letters of 23 December 2016 (Appendices 14 and 15) respectively that:

- EDB and UGC recognized that hostel experience was an integral part of higher education, and was committed to supporting the development of publicly-funded student hostels in accordance with well-established policies and calculation criteria. At present, around 29 200 publicly-funded hostel places were available to the universities, of which some 6 470 were completed in the past five years, while another 676 places were currently under construction. To cope with the surging requirements and the shortfall, UGC and the universities had been working closely with the Government in the planning work for new hostel projects. Eight hostel projects were currently at various stages of planning by the universities, which were expected to deliver around 8 450 publicly-funded hostel places. In addition, UGC had supported two capital project proposals of universities to provide 930 additional hostel places;
- having regard to the importance of hostel life to students and the promotion of internationalization, UGC had since 2013 accorded higher priority to hostel projects than academic building projects when pursuing Capital Works Reserve Fund. In the past few years, UGC had also repeatedly appealed to the Government at various levels for funding support to the hostel projects. On the other hand, universities had been advised to consider alternative ways in provision of student hostels (e.g. finding other funding sources) apart from modifying and/or reprioritizing their projects under planning with a view to enhancing the chance in obtaining funding from the Government for more hostel places; and
- Secretary for Education advised that as a matter of policy, all public works projects were subject to the availability of funds, which was one of the major factors for consideration. Competition for capital works funding had always been keen. Capital Works Projects ("CWPs") of the universities, as with other CWPs, would need to compete with other priorities, including housing and land initiatives, hospital projects, roads and railways, as well as other community facilities.

Finalization of project final accounts

36. According to paragraphs 3.24 to 3.26 of the Audit Report, the UGC Secretariat adopted the term "commissioning of the facilities" in NoP that the project final accounts of major CWPs should be submitted to the UGC Secretariat and finalized as soon as possible and in any event not later than three years after "commissioning of the facilities". The term was originally used in a Financial Circular relating to capital works issued by the Financial Services and the Treasury Bureau ("FSTB") but there was no elaboration of the meaning of term in the circular. The Committee enquired if the UGC Secretariat had clarified with FSTB on the meaning of the term as it would affect the time allowed for the submission of final accounts of major CWPs.

37. **Secretary-General of UGC** advised at the public hearing that the UGC Secretariat had written to FSTB on the meaning of the term "commissioning of the facilities". In reply to the enquiry of the Committee, **Mr Raistlin LAU, Deputy Secretary for Financial Services and the Treasury (Treasury)**³ advised at the public hearing that FSTB had already replied to UGC on the matter. The Secretary for Financial Services and the Treasury provided a copy of the reply by its letter of 3 January 2017 in *Appendix 18* in which it was stated that for the purpose of finalizing the final accounts of CWPs, "project commissioning date" referred to the date when the project commenced functional operation. Project commissioning was not tied with the defect liability period.

38. The Committee noted with concern from paragraphs 3.28 to 3.31 of the Audit Report that as at 30 June 2016, the final accounts of 36 completed major CWPs could not be finalized within three years after "commissioning of the facilities". Out of these 36 CWPs, the finalization of final accounts for 29 had been overdue for more than three years (the longest overdue period was some 18 years). For completed Alterations, Additions, Repairs and Improvements ("AA&I") projects, the final accounts of 98 completed projects could not be finalized within three months after the physical completion of the projects. Out of these accounts, 43 had been overdue for more than three years (the longest being some 15 years). The Committee enquired about the reasons for the delay in finalization of project final accounts for major CWPs and AA&I projects.

39. **Secretary-General of UGC** stated in his letter of 23 December 2016 (Appendix 14) that the latest progress of finalization of final accounts (as at 23 December 2016) was as follows:

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	Major CWPs	AA&I Projects
(i) Total number of projects with finalization of final accounts overdue as at 30 June 2016	36	98
(ii) Total number of projects with final accounts finalized since 1 July 2016	9	49
(iii) Total number of projects pending finalization of final accounts (i.e. (i)-(ii))	27	49

The UGC Secretariat had reviewed the remaining overdue project accounts and had identified the following reasons for the delay in the submission of the final accounts:

- missing information/payment records on the project accounts, in particular those projects which were completed some considerable time ago. In some cases, the universities advised that the file records could not be found and some of the computer records showing the relevant expenditures could no longer be retrieved due to change in accounting/computer systems over the years;
- missing supporting information/documents to justify the final expenditures incurred. In the process of vetting the final expenditures of a project, universities might be required by ArchSD, UGC's technical adviser, to provide justifications and supporting documents to substantiate some of the expenditures incurred, in particular those involving contractual claims and variations or provisions above the normal requirements. Nevertheless, due to movement of staff in charge of the projects in either the consultancy firms or the universities, some of the crucial information might no longer be available. As a result, longer time was required for the universities and ArchSD to work on alternative means to determine the supported level of expenditures;
- late settlement of final accounts between the universities and the works contractors. In some cases, the universities might have genuine difficulties in settling the final accounts with the works contractors (e.g. due to liquidation of the contractors and length of the liquidation process which might take years to settle); and
- limited staff resources tasked with the final account submissions, particularly during the time when the universities and the UGC

Secretariat were heavily engaged in other tasks with higher priorities (e.g. the implementation of many new "3+3+4" capital projects which was planned since 2005 to cater for the additional academic space requirements for the new academic structure starting from 2012-2013).

40. **Secretary-General of UGC** further advised in the same letter that in order to expedite the finalization of project accounts, the UGC Secretariat had taken the following measures since 2010:

- devising new procedural work flow and time frame in consultation with ArchSD to streamline the processing of final account submissions;
- conducting meetings/briefings with the universities concerned and ArchSD with a view to resolving the unsettled final accounts and expedite the vetting process;
- devising alternative means/measures in consultation with the universities and ArchSD to tackle problematic cases (e.g. to accept universities' undertakings signed at vice-President level in lieu of lost payment records, provided such undertakings were supported by relevant evidences/information as agreed by ArchSD); and
- urging the universities concerned to take prompt actions to expedite the submission of final accounts and supporting documents for processing by ArchSD and the UGC Secretariat. Letters had been issued to the Director of Estates or higher level officers (up to the Presidents) of the universities in 2010, 2012, 2013, 2014 and 2016 respectively. In addition to the letters to the Presidents issued by Secretary-General of UGC recently, the Chairman and Secretary-General of UGC personally visited each President of eight universities and sought personal intervention to resolve the problem in the past few years.

41. The Committee noted from paragraph 3.32 of the Audit Report that upon finalization of project final accounts for major CWPs and AA&I projects, any unspent project balances and unsupported expenses would be returned to the Administration. In this connection, the Committee asked UGC and FSTB whether there were any intended delayed submissions of project final accounts and whether interests would be charged on such cases for unspent project balances and unsupported expenses to be returned to the Administration.

42. **Secretary-General of UGC** replied in his letter of 23 December 2016 (Appendix 14) that the delay in submission of final accounts was due to various reasons, as set out in paragraph 39 above. Based on the information provided by universities, there was no clear evidence showing that universities had intentionally delayed the submission of project final accounts beyond the time limit specified in the UGC NoP unreasonably. In vetting the final account submissions, the UGC Secretariat consulted ArchSD, UGC's technical adviser, who would advise on the supported level of the final project expenditures and other technical matters as appropriate. If the UGC Secretariat together with ArchSD found that a university had intentionally delayed the submission of project final account beyond the specified time limit, UGC would consult FSTB whether interests should be charged on a case-by-case basis as appropriate.

43. **Secretary for Financial Services and the Treasury** replied in his letter of 3 January 2017 (Appendix 18) that the UGC Secretariat had advised him that the Secretariat was not aware of any cases in which universities had delayed returning the unspent project balances and unsupported expenses when required by the UGC Secretariat in the process of account finalization. While no interest had ever been charged due to delay in account finalization, or delay in return of unspent project balances and unsupported expenses among the 171 cases as quoted in paragraph 3.24 of the Audit Report, FSTB would consider the propriety of imposing interest or other penalty charges to protect the interest of the Administration in cases involving intentional delays in the finalization of accounts, or in returning unspent project balances and unsupported expenses due to the Administration, in consultation with relevant parties.

D. Governance and other administrative issues

Governance and administrative issues

44. In reply to the Committee's enquiry about how the rates of honoraria were set (paragraph 4.4 of the Audit Report), **Secretary-General of UGC** pointed out in his letter of 13 January 2017 in *Appendix 19* that the rates of honoraria were first approved by FC in 1973. As provided for in the said FC paper, the subsequent adjustments to the rates were delegated to the then Secretary for the Treasury for approval, which was now under the authority of Secretary for Financial Services and the Treasury. The adjustments were made with reference to the annual civil service pay adjustment.

45. The Committee noted with concern from paragraphs 4.5 and 4.6 of the Audit Report that 26 Register of Interests forms of existing and former UGC members and QAC members could not be located by the UGC Secretariat and enquired whether the UGC Secretariat had reviewed the reasons that had led to the loss of the forms.

46. **Secretary-General of UGC** pointed out in his letters of 13 and 18 January 2017 in *Appendices 19* and *20* that of the 26 forms that could not be located by the UGC Secretariat, two were resubmitted by UGC/QAC members concerned and UGC had secured the relevant remaining 24 forms. On this incident, the UGC Secretariat had reviewed the system on the management of Register of Interests forms submitted by UGC/QAC members. The UGC Secretariat noted that the system for monitoring the receipt of and the filing of these forms was not satisfactory with no single register, hence resulting in the failure to locate a number of such forms. The UGC Secretariat was now preparing a database to provide a central register on the receipt of the Register of Interests forms submitted by members. A bring-up mechanism would also be set up to closely monitor the progress of submission from members.

47. On the existing system for the proper and efficient management of conflict of interest, **Secretary-General of UGC** pointed out in his letter of 13 January 2017 in Appendix 19 that UGC had adopted a two-tier system in the declaration of interest by members. Members were required to declare any possible conflict of interest on their first appointment/reappointment or significant change of circumstances. At the second tier, members were required to declare interest on a case by case basis whenever necessary, having regard to the nature of the items under discussion. Members with potential conflict of interest were required to excuse themselves from the discussion of the items concerned.

48. The Committee noted from paragraph 4.6(b) of the Audit Report that members of UGC, the UGC Sub-Committees/Groups and QAC were not required to submit annually an updated Register of Interests form to the UGC Secretariat, a practice adopted for members of RGC. The Committee enquired about the reasons for the different requirements and whether measures would be taken to align the different requirements.

49. **Secretary-General of UGC** replied at the public hearing and supplemented in his letter of 13 January 2017 in Appendix 19 that RGC members were subject to a more stringent requirement to declare interests, i.e. they were required to update their

declaration of interest annually, because RGC dealt with the allocation of a large amount of funding and the likelihood of inter-institutional conflict changes among institutions was more frequent among Panel members. By comparison, the work of UGC, the UGC Sub-Committees/Groups and QAC was more of an advisory nature and did not directly involve funding. Hence, the two-tier mechanism for declaring interests was considered appropriate. However, in view of Audit's recommendation, UGC had no objection to inviting members of UGC, the UGC Sub-Committees/Groups and QAC to submit updated Register of Interests forms annually as adopted by RGC. The UGC Secretariat would put in place this requirement with effect from 1 April 2017 before the next meetings.

50. With reference to paragraph 4.11 of the Audit Report, the Committee enquired about the timeline for UGC to prepare a document in the form of a strategic plan. **Secretary-General of UGC** replied at the public hearing and supplemented in his letter of 13 January 2017 in Appendix 19 that the UGC Secretariat would invite UGC to consider the need to prepare a document in the form of a strategic plan which would set out, amongst other things, the principles, strategies, strategic priorities of UGC tentatively in the next UGC meeting in May 2017. In the case that UGC considered that there was such a need, the UGC Secretariat would prepare the document, update it periodically and make it available on the UGC's website.

51. The Committee noted from paragraphs 4.14 to 4.16 of the Audit Report that UGC had chosen the same five upmarket hotels to provide accommodation for non-local members of UGC, RGC and QAC (as well as their Committees, Sub-Committees, Groups and Panels), and asked for justifications and whether quotations for other hotels were obtained as alternative options.

52. **Secretary-General of UGC** replied at the public hearing and supplemented in his letter of 13 January 2017 in Appendix 19 that having regard to the status of non-local members who were renowned academics from around the world, the UGC Secretariat considered that it was appropriate to provide hotel accommodation at upmarket hotels for non-local members when they attended meetings in Hong Kong. These five upmarket hotels were located in the vicinity of the meeting venue. In order to enhance the procurement arrangement, the UGC Secretariat had invited additional hotels for submission of quotations with effect from December 2016. In general, all appropriate hotels which were located in the vicinity of the meeting venue were included in the quotation exercise. In principle, the lowest quotation would be accepted as the appointed hotel for non-local members. The UGC Secretariat would further explore with hotels on the possibility of providing special

rates under the mechanism of quotation exercise. A breakdown of the number of hotel room-nights by UGG, RGC and QAC from 2005-2006 to 2015-2016 financial years is in Appendix 20.

53. According to paragraphs 4.21 to 4.24 of the Audit Report, the UGC Secretariat might not have followed the Government's Stores and Procurement Regulations in conducting the procurements of air tickets for non-local academics attending meetings in Hong Kong by not conducting open tendering for procurement exceeding \$1.43 million. The Committee asked whether UGC had consulted Director of Government Logistics and Secretary for Financial Services and the Treasury on whether such arrangement complied with the relevant regulation. **Secretary-General of UGC** replied in his letter of 13 January 2017 in Appendix 19 that following the publication of the Audit Report, the UGC Secretariat had been in dialogue with the representatives from the Government Logistics Department ("GLD") and FSTB to consult them on the procurement procedures of air tickets. During the discussion, UGC noted from GLD that as a general rule, procurement of air tickets for the same activity should be consolidated as far as practicable. The UGC Secretariat had taken the advice of GLD and would put in place suitable arrangements in the procurement of air tickets in consultation with GLD and FSTB as appropriate.

Internationalization of universities

54. The Committee noted from paragraph 2.32 of the Audit Report that starting from 2016-2017, all new non-local students should be admitted through over-enrolment capped at 20% of the approved UGC-funded student numbers. According to Table 23 in paragraph 4.30 of the Audit Report, the number of non-local students enrolled in UGC-funded programmes had increased from 10 074 (14% of total student enrolment) in 2010-2011 to 15 730 (16% of total student enrolment) in 2015-2016. Study by Audit further revealed that Mainland students made up the largest group of non-local students at the universities (e.g. 87% in 2010-2011 and 76% in 2015-2016). The Committee enquired if UGC and/or EDB had any statistics of non-local students who had remained to stay/work in Hong Kong after graduating.

55. **Secretary-General of UGC** and **Secretary for Education** explained respectively in their letters of 23 December 2016, 18 January and 25 January 2017 (*Appendices 14, 15, 21 and 22*) that:

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- at present, the Immigration Department administered the "Immigration Arrangements for Non-local Graduates", which allowed non-local students who had obtained an undergraduate or higher qualification in a full-time and locally-accredited local programme in Hong Kong, including UGC-funded undergraduate programmes, to apply to stay/return and work in Hong Kong. Both non-local fresh graduates (i.e. non-local graduates who submitted applications to the Immigration Department within six months after graduation) and returning non-local graduates (i.e. non-local graduates who submitted applications to the Immigration Department beyond six months after graduation) were eligible under the scheme. The statistics related to the "Immigration Arrangements for Non-local Graduates" were maintained by the Immigration Department;
- in 2015-2016 (as at June 2016), 2 685 applicants with undergraduate qualifications were approved. The breakdown statistics on successful applicants who were non-local graduates of UGC-funded undergraduate programmes were not available; and
- as regards the number of approved "Immigration Arrangements for Non-local Graduates" applications since April 2015 from Mainland residents who had bachelor's degrees, master's degrees and doctorate degrees were tabulated as below:

	2015 (April to December)	2016
Bachelor's degree (including other academic qualifications at degree level or equivalent)	2 181	1 292
Master's degree	6 008	6 425
Doctorate degree	661	894

56. **Secretary for Education** advised at the public hearing that the Administration was in process of liaising with the alumni associations of non-local graduates on collecting statistics on whether their members remained to stay/work in Hong Kong after they had graduated.

57. According to a follow-up paper provided by EDB to the LegCo Panel on Education,¹¹ the number of secondary six students meeting the general entrance requirements for undergraduate admission was projected to be 22 000 in 2016. On the other hand, there were only about 15 000 UGC-funded first-year first-degree places for 2016-2017, with around 7 000 secondary school leavers meeting the general entrance requirements not able to be admitted to these places. The Committee enquired whether the great number of non-local students, in particular those from the Mainland, studying at the universities would cause an adverse impact on the resources available to the local students.

58. **Secretary for Education** explained at the public hearing and supplemented in his letter of 4 January 2017 in *Appendix 23* that:

- as a matter of principle, enrolment of non-local students to UGC-funded sub-degree, undergraduate, taught postgraduate programmes should not be considered as creating an adverse impact on local students of these programmes. On the contrary, non-local students helped diversify the local higher education sector and enhance the competitiveness of local students and Hong Kong as a whole. A multi-cultural learning environment, with students coming from other countries/regions, would help enhance cultural exchanges, broaden the horizons of the local students and ensure that graduates, local and non-local alike, were globally competitive; and
- moreover, whilst noting the immense benefits of recruitment of non-local students, the Administration had implemented the following measures to ensure that the resources available to local students would not be compromised as a result of recruitment of non-local students:

20% cap on enrolment of non-local students

- (a) recruitment of non-local students to UGC-funded sub-degree, undergraduate and taught postgraduate programmes was subject to a cap, by study level, that was equivalent to 20% of the approved student numbers. This helped strike a balance between enrolling non-local students for the benefit of the higher education sector as a whole, and ensuring that the vast majority of the student population of these programmes remained local;

¹¹ Source: the Administration's paper dated 22 March 2016 submitted to the Legislative Council Panel on Education (LC Paper No. CB(4)776/15-16(01)).

Admission of non-local students by over-enrolment

- (b) starting from 2016-2017, all new non-local students of UGC-funded sub-degree, undergraduate and taught postgraduate programmes must be admitted through over-enrolment outside the approved student numbers. This helped ensure that precious publicly-funded student places, including but not limited to the 15 000 first-year first-degree places, were entirely reserved for admission of local students. In other words, local students would not be "displaced" whatsoever as a result of admission of non-local students;

Tuition fees for non-local students

- (c) under existing policy, universities should charge non-local students of UGC-funded sub-degree, undergraduate and taught postgraduate programmes tuition fees at levels at least sufficient to recover all additional direct costs, and that the tuition fees should in no circumstances be lower than the fees applicable to local students. This policy helped ensure that recurrent resources available to local students would not in any way be compromised as a result of admission of non-local students; and

Provision of hostel places and academic space

- (d) under existing policy, the needs of both local and non-local students for hostel places and academic space were fully and separately taken into account when calculating the provisions available to universities according to the established formulae.¹² The actual allocation of places by individual universities in a particular year would depend on the number of available places, the actual demand and their own allocation policies.

59. In this connection, **Secretary-General of UGC** advised in his letter of 13 January 2017 in Appendix 19 that to encourage universities to internationalize in ways that fitted its institutional context, UGC had:

- in the 2012-2015 triennium, put together a "tripartite" funding scheme (funding from EDB, UGC and the universities) of \$30 million to

¹² See paragraph 31 above for the criteria on the provision of publicly-funded student hostel places to universities

support four new initiatives on internationalization and engagement with the Mainland, all of which were implemented in 2013-2014 and 2014-2015. One of the initiatives was to set up a Hong Kong Pavilion in international education conferences to attract more non-local students from different regions as well as to promote the UGC sector as a united front. These annual conferences included the Asia Pacific Association for International Education, NAFSA: Association of International Educators and the European Association for International Education; and

- funding would continue to be provided to the universities in the 2016-2019 triennium to continue their efforts to attract more diversified sources of non-local students. Apart from the major international education conferences, the universities were given additional funding to expand into new markets they considered to be desirable. The UGC Secretariat would keep in view and see whether and how to encourage universities to attract more diversified non-local students.

60. **Secretary-General of UGC** further advised in the same letter that according to the information provided by the universities, some commonly used key performance indicators on internationalization used by the universities were:

- number and percentage of full time non-local academic staff;
- number and percentage of non-local students;
- number of exchange agreements signed with non-local institutions;
- number and percentage of incoming and outgoing exchange students;
- number and percentage of students with non-local learning experience; and
- number of research collaborations with non-local institutions.

61. Since the number and percentage of full time non-local academic staff could be one of the indicators of the extent of internationalization, the Committee enquired whether UGC would consider collecting information on the mix of academic staff of each university. **Secretary-General of UGC** replied in his letter of

13 January 2017 in Appendix 19 that the UGC Secretariat would consider collecting information on the mix of academic staff from the universities in the next 2017-2018 regular data collection exercise. In accordance with the established mechanism, the Secretariat would consult the universities on the data collection arrangement, including the coverage, definitions and classifications.

62. At the request of the Committee, **Secretary for Education** provided the number of applications for and student intakes of UGC-funded research postgraduate programmes by place of origin from 2012-2013 to 2016-2017 in *Appendix 24*.

63. Noting that Mainland students made up the majority of students studying for postgraduate programmes in Hong Kong, the Committee enquired:

- whether the Administration would implement measures to encourage more local talents to apply for postgraduate programmes in Hong Kong; and
- whether the Administration would consider reserving a certain number of places of postgraduate programmes for application by local applicants only.

64. In reply, **Secretary for Education** advised in his letter of 18 January 2017 in Appendix 21 that:

- the Administration and universities had organized symposiums, seminars, talks, and promotion activities such as through RoadShow to attract local talents to apply for postgraduate programmes in Hong Kong. This notwithstanding, the decision of local graduates on whether and where to pursue postgraduate studies, especially research postgraduate programmes, was a personal choice affected by such factors as prevailing employment opportunities in the market, students' career orientation and prospect in the teaching/research fields. Furthermore, among local students who chose to pursue research postgraduate studies, many would do so abroad, so that they could conduct research under a different culture and environment;
- in 2015-2016, about 29% of the applications for UGC-funded research postgraduate programmes submitted by local students were admitted by universities, whilst only about 11% of applications by non-local

students (including those from the Mainland) were admitted. This indicated that the chance for local students to be admitted to UGC-funded research postgraduate programme was more than double of that for non-local students. Moreover, universities had yet to fully utilize their over-enrolment capacity. If applications for research postgraduate programmes were received from outstanding local students, universities still had spare capacity to consider their admission on a merit basis;

- as regards UGC-funded taught postgraduate programmes, recruitment of non-local students to UGC-funded taught postgraduate programmes (alongside sub-degree and undergraduate programmes) was subject to a cap, by study level, that is, equivalent to 20% of the approved student numbers. This helped strike a balance between enrolling non-local students for the benefit of the higher education sector as a whole, and ensuring that the vast majority of the student population of these programmes remained local;
- the Administration accepted UGC's recommendation in 2002 that the quota for non-local research postgraduate students should be removed from the universities. Imposing restrictions on the number of non-local students for research postgraduate programmes would only pose hindrance to the pursuit of academic excellence by the local higher education sector and lead to a loss of high quality research talents and projects to other places; and
- the universities currently admitted research postgraduate students on a merit basis, taking into account the students' academic results and research capability, regardless of their place of origin.

E. Conclusions and recommendations

Overall comments

65. The Committee:

- notes that:
 - (a) the Administration's recurrent expenditure for the 2016-2017 financial year was estimated to be \$347.5 billion and education

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took up the largest portion at \$74.7 billion (21.5%). Out of this sum, the estimated expenditure of the University Grants Committee ("UGC") amounted to \$17.966 billion including \$17.822 billion¹³ for grants/reimbursements provided to eight universities¹⁴ funded by UGC (all universities mentioned hereinafter refer to UGC-funded universities); and

- (b) the mission of UGC is to work with the universities, the Government and the community to promote excellence in the higher education sector, with a view to establishing Hong Kong as the education hub of the region and to nurturing high quality people to promote the economic and social development of Hong Kong. UGC advises the Government on the application of such funds as may be approved by the Legislative Council for education in such universities. UGC also advises the Government on the development and funding of higher education in Hong Kong, advances the quality of teaching and learning, research and knowledge transfer at the universities, and monitors the efficiency and cost-effectiveness of the universities' UGC-funded activities;

- stresses that:

- (a) UGC's work plays an important role in providing resources and shaping the tertiary education and manpower supply for Hong Kong and thus has a great bearing on the competitiveness of Hong Kong;
- (b) in carrying out its duties and to achieve its mission, UGC has a duty to ensure autonomy and academic freedom of universities as well as to ensure value-for-money for the taxpayers; and
- (c) as a publicly-funded body, UGC has to be transparent and accountable to the public;

¹³ The remaining \$0.144 billion was for the UGC Secretariat's expenses.

¹⁴ The eight universities are, in alphabetical order, City University of Hong Kong; Hong Kong Baptist University; Lingnan University; The Chinese University of Hong Kong; The Education University of Hong Kong; The Hong Kong Polytechnic University; The Hong Kong University of Science and Technology; and the University of Hong Kong.

Governance issues

- expresses grave concern and dissatisfaction and finds it unacceptable about various irregularities and deficiencies of UGC in the governance, management and the utilization of resources as evidenced by the following:
 - (a) some universities had not complied with the enrolment rules as laid down in the UGC's Notes on Procedures in 2009-2012 and 2012-2015 triennia, and the non-compliance cases were not adequately followed up by UGC;
 - (b) as at 30 June 2016, the finalization of project final accounts for 36 completed major Capital Works Projects ("CWPs") and 98 completed Alterations, Additions, Repairs and Improvements ("AA&I") projects of the universities had been overdue, the longest for CWPs and AA&I projects being some 18 years and 15 years respectively;
 - (c) 26 Register of Interests forms of members of UGC and Quality Assurance Council ("QAC") for the 2011-2012 to 2015-2016 academic years (all years mentioned hereinafter refer to academic years unless otherwise stated) could not be located by the UGC Secretariat;
 - (d) different practices on the submission of Register of Interests forms had been adopted for the Research Grants Council ("RGC") members, and members of UGC, the UGC Sub-Committees/Groups and QAC;
 - (e) the UGC Secretariat had not promulgated rules of procedure governing the conduct of meetings of UGC, the UGC Sub-Committees/Groups and QAC;
 - (f) no documentary evidence showing justifications for choosing the same five upmarket hotels to provide hotel accommodation for non-local members of UGC, RGC and QAC (as well as their Committees, Sub-Committees, Groups and Panels) and that less expensive hotels were not suitable or not available;
 - (g) the UGC Secretariat treated each air ticket for the non-local members travelling to Hong Kong to attend meetings as an

individual item in a quotation exercise so that no tendering was conducted for procurement of air tickets with the amount exceeding \$1.43 million;¹⁵ and

- (h) UGC had not produced a document in the form of a strategic plan to guide its actions and the use of resources in meeting new demands and the challenges of a changing environment;
- urges UGC to:
 - (a) take measures to rectify the irregularities and deficiencies as identified in the Director of Audit's Report ("Audit Report") in order to achieve good governance and ensure value-for-money for public money spent, and implement any new measures expeditiously;
 - (b) prepare a strategic plan to set out the principles and practices of UGC;
 - (c) seek advice from the Financial Services and the Treasury Bureau and the Government Logistics Department as to whether its current arrangement of procuring air tickets complies with the Government's Stores and Procurement Regulations; and
 - (d) consult the Government Logistics Department to improve its arrangement of procuring hotel accommodation and air tickets;

Internationalization of universities

- agrees that, in the age of rapid globalization and intense regional and international competition, internationalization, which includes the achieving of a balance mix of international students and staff, is the key to Hong Kong's future development and would benefit local students, and is a priority for the universities;
- notes that of the 15 730 (16% of the total student enrolment) non-local students enrolled in UGC-funded programmes for 2015-2016, the majority of 11 893 (76% of all non-local students) were from the Mainland;

¹⁵ According to the Government's Stores and Procurement Regulations, for procurements with a value over \$1.43 million, open tendering should be conducted.

- expresses great dissatisfaction and finds it unacceptable that resources granted to the universities which could have been used to admit more local students had been used to admit non-local students, given that the number of UGC-funded first-year first-degree places in full-time-equivalent terms is maintained at 15 000 per annum for 2016-2017 and the projected number of secondary six students meeting the general entrance requirements for undergraduate admission in 2016 was 22 000;¹⁶
- expresses grave concern and dissatisfaction that UGC and the Education Bureau ("EDB"):
 - (a) have not collated data and compiled statistics on whether Mainland and non-Mainland non-local students studying undergraduate and postgraduate programmes at the universities remain to work/stay in Hong Kong making contributions to the development of Hong Kong after they have graduated. Such statistics could give an indication on the cost-effectiveness (in terms of talent retention) of public resources expended on non-local students in the universities;
 - (b) have not yet agreed with the universities on a set of key performance indicators on internationalization, such as the target ratio of local to non-local students; and
 - (c) could not address the shortfall in student hostel places, the provision of which is a key factor in promoting internationalization;
- acknowledges that EDB will liaise with the university alumni associations of non-local students for information on non-local graduates working/studying in Hong Kong after graduating from universities;
- urges EDB to regularly review its policies on tertiary education with a view to enhancing the internationalization of universities; and

¹⁶ Source: the Administration's paper dated 22 March 2016 submitted to the Legislative Council Panel on Education (LC Paper No. CB(4)776/15-16(01)).

- demands UGC and EDB to:
 - (a) compile statistics on whether non-local students (Mainland and non-Mainland students) pursue further study or take up employment in Hong Kong after graduating from universities;
 - (b) review regularly whether public money granted to the universities and the present mix of non-local students, with the vast majority of non-local students from the Mainland, have achieved the intended objectives of internationalization and the key performance indicators on internationalization, and continue to monitor the universities' performance on internationalization;
 - (c) consider measures to promote diversity at universities, such as attracting more non-local students, in particular those other than Mainland students; and to encourage more local students to pursue postgraduate programmes in Hong Kong;
 - (d) review the supply of student hostel places with universities to ensure that insufficient supply of student hostel places would not impede the internationalization of universities; and
 - (e) better utilize scarce land resources allocated for the construction of student hostels with a view to maximizing the number of hostel places provided subject to the plot ratio of the site.

Specific comments

66. The Committee:

Administration of recurrent grants

- expresses grave concern that:
 - (a) in determining funding to the universities for the research element that was solely based on the universities' performance in the Research Assessment Exercise, UGC did not include the universities' research impact (e.g. any effect on the economy, society, culture, health, environment, etc.) as one of the elements of assessment in the Exercise;

- (b) in allocating the earmarked grants for knowledge transfer activities¹⁷ (\$62.5 million per annum in the 2016-2019 triennium) to the universities, UGC did not take into consideration the achievements of knowledge transfer activities of the universities;
- (c) the tuition fee had remained unchanged and had not been reviewed since 1997-1998. The cost recovery rate dropped from 18% in 2012-2013 to 15.8% in 2015-2016. It was not until June 2015 that EDB invited UGC to launch a review of tuition fee policies in other jurisdictions and propose options to EDB for consideration with due regard to the situation in Hong Kong;
- (d) Audit Commission ("Audit")'s examination on the universities' actual student enrolment in the 2009-2012 and 2012-2015 triennia revealed that there were cases of non-compliance with UGC's enrolment rules (i.e. rules governing over-enrolment/under-enrolment of local/non-local students for manpower-planned/non-manpower-planned programmes). However, such non-compliance cases had not been followed up by UGC;
- (e) UGC's Notes on Procedures is silent on the consequences of non-compliance with over-enrolment rules except for mentioning that no extra resources will be provided by UGC for over-enrolment of students. The cases of non-compliance with over-enrolment rules were therefore not followed up;
- (f) in the 2009-2012 and 2012-2015 triennia, for manpower-planned programmes, there were cases of under-enrolment in which six universities had exceeded the tolerance level of 4% by 0.5% to 32.3%.¹⁸ There was, however, no documentary evidence showing that UGC had given consideration to taking appropriate action on these cases;

¹⁷ According to UGC, knowledge transfer is the systems and processes by which knowledge, including technology, know-how, expertise and skills are transferred between higher education institutions and society, leading to innovative, profitable or economic or social improvements. See paragraph 2.12 of the Audit Report.

¹⁸ See Table 12 in paragraph 2.26 of the Audit Report.

- (g) as at 31 July 2016, UGC was still deliberating on the appropriate limits on under-enrolment on individual streams of teacher education programmes, some 1.5 years after EDB expressed its concern on the matter in December 2014; and
 - (h) as at 31 July 2016, UGC's Notes on Procedures had still not been updated and the changes to the enrolment rules had not been finalized to effect the policy change for admission of non-local students in 2016-2017;
- notes that:
- (a) Secretary-General of UGC has agreed with Audit's recommendations in paragraphs 2.16 and 2.35 of the Audit Report; and
 - (b) Secretary for Education has agreed with Audit's recommendation in paragraph 2.23 of the Audit Report;

Administration of capital grants

- expresses grave concern and dissatisfaction that:
- (a) according to UGC's records, in 2015-2016, there was a total shortfall (i.e. the difference between the student hostel place/academic space requirement of the universities and UGC's existing provision) of 8 660 student hostel places and 133 292 square metres of academic space for the universities;
 - (b) the slow progress in campus and student hostel development would affect the development of the universities and the overall competitiveness of the higher education sector and this would have an adverse impact on the internationalization of universities;
 - (c) it has been ten years since the space requirement formulae were reviewed in 2006. In the past decade, UGC sector had gone through a lot of changes and developments, which might have impacts on the academic space needs of the universities;
 - (d) in the latest space inventory updating exercise conducted in November 2014, there were differences (6 871 square metres in

- total) between the academic space inventory records maintained by UGC and those submitted by the universities;
- (e) since 2006, UGC had not appointed an external party to audit the space inventories of the universities so as to verify the accuracy of the inventories;
 - (f) according to the Space Inventory Manual, space utilization surveys are a useful tool to measure whether the universities' facilities are used at an optimal level and an additional source of information for evaluation of the universities' capital works project proposals. However, since 2006, the UGC Secretariat has not conducted any such surveys. The UGC Secretariat also has not requested the universities to provide information on their space utilization; and
 - (g) as at 30 June 2016, the finalization of project final accounts for 36 completed major CWPs and 98 completed AA&I projects had been overdue. The longest overdue period was some 18 years;
- notes that Secretary-General of UGC has agreed with Audit's recommendations in paragraphs 3.13, 3.22 and 3.33 of the Audit Report;

Governance and other administrative issues

- expresses grave concern and dissatisfaction and finds it unacceptable that:
- (a) 26 Register of Interests forms for members of UGC and QAC for the period 2011-2012 to 2015-2016 could not be located by the UGC Secretariat which could adversely affect the management of conflict of interest in UGC and QAC;
 - (b) the attendance rates of two members of QAC were low. As at 30 June 2016, one local QAC member attended two (29%) out of seven QAC meetings since his appointment in April 2014, and another non-local QAC member attended two (50%) out of four meetings since his appointment in April 2015;

- (c) the UGC Secretariat has not promulgated rules of procedure governing the conduct of meetings of UGC, the UGC Sub-Committees/Groups and QAC;
- (d) UGC has not produced any strategic plan setting out the principles, priorities and practices of UGC, which should be updated periodically and made available on its website;
- (e) booking of hotel accommodation for non-local members of UGC, RGC and QAC coming to Hong Kong for meetings were made after obtaining quotations from the same five upmarket hotels. However, there was no documentary evidence showing justifications for choosing the same five upmarket hotels and that less expensive hotels were not suitable or not available;
- (f) it is the practice of the UGC Secretariat that all non-local members are provided with Business Class return air tickets for travelling to Hong Kong to attend meetings. The UGC Secretariat has not explored whether there are less expensive passage options (e.g. travelling on classes other than Business Class for short flights) that are acceptable to the non-local members;
- (g) instead of consolidating procurement batches to achieve better economies of scale in 2014, the UGC Secretariat conducted 12 procurement batches for a total of 110 return air tickets costing \$7.1 million;
- (h) according to the report entitled "Aspirations for the Higher Education System in Hong Kong" issued by UGC in 2010, internationalization is not the same thing as encouraging Mainland students to study in Hong Kong. However, in 2015-2016, Mainland students made up 76% of the non-local students enrolled in UGC-funded programmes at the universities. Non-local students other than Mainland students accounted for only 3.9% of total student enrolment; and
- (i) the Financial Affairs Working Group's review report of October 2013 highlighted areas for improvement in the cost allocation practices and the level of financial transparency of the universities, and put forward recommendations to address the issues. However, the implementation of the cost allocation

guidelines drawn up to take forward the review report recommendations has been deferred from 2017-2018 to 2018-2019; and

- notes that:
 - (a) Secretary-General of UGC has agreed with Audit's recommendations in paragraphs 4.12, 4.25, 4.35, 4.46 and 4.58 of the Audit Report; and
 - (b) Secretary for Education has agreed with Audit's recommendation in paragraph 4.36 of the Audit Report.

Follow-up action

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

Procurement and maintenance of fire services equipment

The Audit Commission ("Audit") conducted a review of the Fire Services Department ("FSD")'s work on the procurement and maintenance of fire services equipment ("FSE"), including communications systems, fire appliances and support vehicles, fire-fighting and rescue vessels and other fire services support equipment.

2. FSD is responsible for fire-fighting and rescue on land and at sea, and providing emergency ambulance service for sick and injured persons under the Fire Services Ordinance (Cap. 95). FSE is critical for delivering FSD's core services and instrumental to the safe and efficient operations of frontline officers. In 2015-2016, FSD incurred \$482.7 million and \$127.1 million on the procurement and the maintenance of major FSE items respectively. The Procurement and Logistics Group of the Fire Services Headquarters Command is responsible for the FSE's procurement. Various types of FSE are maintained by FSD, the Marine Department or through FSD's contractors, in particular the Electrical and Mechanical Services Trading Fund of the Electrical and Mechanical Services Department, to ensure their reliability and safety use.

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

Third Generation Mobilizing System

- the Third Generation Mobilizing System ("TGMS") is a sophisticated telecommunication and computer integrated mobilizing system adopted by FSD to enhance the identification, location and mobilization of fire-fighting and ambulance resources with a view to meeting the targets of graded response time. The Finance Committee of the Legislative Council approved funding of \$718.6 million in May 2000 for FSD to procure TGMS for replacing the Second Generation Mobilizing System in 2003. FSD launched TGMS in March 2005 prior to the completion of the System Acceptance Tests in April 2007. Due to technical issues encountered, FSD's graded response times were only met in 89.2% of the fire calls and 89.6% of the emergency ambulance calls in 2005-2006, below the target of 92.5%;
- in March 2001, a contract (with original value of \$794 million) for the procurement, installation and maintenance of TGMS was awarded to Contractor A. FSD then paid Contractor A an extra \$53.6 million for supporting the live operation TGMS for 25 months before the

Procurement and maintenance of fire services equipment

completion of the System Acceptance Tests. FSD had neither sought approval nor agreed with Contractor A the fee before commencing the service;

- up to April 2016, FSD had spent \$81.2 million on engaging the services of two trading funds, of which \$35.9 million was for engaging the Electrical and Mechanical Services Trading Fund in providing professional services for enhancing TGMS and monitoring Contractor A's finalization of outstanding contractual work from May 2007 onwards. Upon the completion of the System Acceptance Tests in April 2007, it had taken four years for FSD and Contractor A to agree on the arrangements for handling the outstanding contractual work in March 2011. Afterwards, Contractor A spent some four years to complete all the outstanding contractual work in August 2015;
- Contractor A has set a target response time (i.e. time required for arrival on scene after a system incident is reported) and a target turnaround time (i.e. time required to rectify a breakdown after arrival on scene) for corrective maintenance of TGMS equipment. However, in 2015-2016, for the maintenance of a sub-system of TGMS, the two-hour response time target was not met in 423 (43%) of 985 cases, and the target of six-hour turnaround time for critical faults was also not met in 248 (30%) of 814 cases;
- the TGMS contract was inadequate on some installation and maintenance terms. As a result, FSD had to procure additional TGMS equipment for installation on new emergency vehicles, and there were delays of about seven months on two occasions. While TGMS has a design serviceable life of 10 years and extendable to 15 years, there was inadequate provision for the maintenance service for the extension. Such maintenance service, which cost \$58.5 million a year, was obtained by a contract variation without competitive bidding;

Other fire services equipment

- as of May 2016, 246 (40%) of 620 fire appliances and support vehicles had exceeded their expected serviceable lives by four years on average;
- between September 2011 and December 2012, five contracts for procuring 37 fire appliances were terminated. FSD had paid \$66 million under three of the five contracts. The replacement fire

Procurement and maintenance of fire services equipment

appliances subsequently procured under five new contracts were put into operation between April 2014 and June 2016, some four years later than the original target commissioning dates under the terminated contracts;

- from July 2015 to June 2016, 86 (20%) of the 426 FSD maintained vehicles had not undergone all stipulated rounds of scheduled maintenance. Besides, there were delays in carrying out 359 rounds of scheduled maintenance for 222 vehicles (35% of 1 022 rounds for the 426 vehicles). From April 2015 to March 2016, out of the 194 vehicles maintained by the Electrical and Mechanical Services Trading Fund, 10 (5%) vehicles had missed all scheduled maintenance while another 23 (12%) vehicles each missed one round of the scheduled maintenance;
- as of July 2016, 14 (67%) of 21 fire-fighting and rescue vessels had exceeded their designed serviceable lives by 0.7 to 11 years. The replacement projects of a fireboat and two speedboats were delayed for more than four years and three years respectively mainly due to the shortage of experienced staff in the Marine Department. As a result, the total financial commitment had increased from \$101 million to \$130.3 million; and
- in the tender document of the contract (original value of \$81 million) for the supply of fire-fighting protective suits, the comprehensive managed care and maintenance service was only included as an optional item in order to attract more competitors to submit tenders. However, three variations were subsequently made to the contract for engaging the contractor to provide the comprehensive managed care and maintenance service for six years from April 2011 to March 2017 at a total cost of \$50.1 million.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the implementation of the TGMS contract, measures to improve contract management in similar projects in future, the monitoring of contractors' performance, FSD's plan to improve the age profile of its vehicle fleet, the monitoring of compliance of scheduled maintenance requirements for FSD's vehicles, issues relating to FSD's aged vessels and the implementation of FSD's 10-year vessel replacement/procurement plan. The replies from **Secretary for Security, Director of Fire Services, Director of Government Logistics,**

Director of Electrical and Mechanical Services and **Director of Marine** are in *Appendices 25 to 29* respectively.

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

Management of abandoned construction and demolition materials

The Audit Commission ("Audit") conducted a review of Government's efforts in managing abandoned construction and demolition ("C&D") materials.¹

2. Under the Waste Disposal (Designated Waste Disposal Facility) Regulation (Cap. 354L), abandoned C&D materials may be disposed at the two public fill banks, two fill material transfer facilities and two sorting facilities managed by the Civil Engineering and Development Department, as well as at the three landfills and seven Outlying Islands Transfer Facilities managed by the Environmental Protection Department ("EPD"). From January 2006, a charging scheme for disposal of abandoned C&D materials (hereinafter referred to as "the charging scheme") has been in force. The charge rates per tonne of abandoned C&D materials were \$27 for disposal at public fill banks and fill material transfer facilities, \$100 for disposal at sorting facilities, and \$125 for disposal at landfills and Outlying Islands Transfer Facilities. In 2014, 21 million tonnes ("Mt") of abandoned C&D materials were generated, of which 19.56 Mt (93%) were recycled as fill materials for reuse and 1.44 Mt (7%) were mixed C&D materials (including both fill materials and non-inert construction waste) and disposed of at landfills. Disposed C&D materials or construction waste accounted for 27% of the 5.42 Mt of total waste being disposed of at landfills.

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

- charge rates of the charging scheme had not been revised from January 2006 to August 2016. Despite repeated requests from the Financial Services and the Treasury Bureau ("FSTB") from mid-2006 to mid-2014, EPD and the Civil Engineering and Development Department had not conducted any review of the charge rates and related costs of disposal of abandoned C&D materials, nor provided FSTB with information on the full cost of the operations at government facilities for receiving abandoned C&D materials. As a result, the estimated unrecovered costs aggregated to \$3,811 million from 2006-2007 to 2014-2015, which was at variance with the Government's user-pay principle, as well as the principle of full recovery of the capital and recurrent costs of the facilities deployed for disposal of

¹ Abandoned C&D materials comprising inert C&D materials (e.g. rocks and soil) which can be reused as fill materials in reclamation and site formation projects (hereinafter referred to as "fill materials") and non-inert C&D materials (e.g. waste bamboos and timber) which need to be disposed of (hereinafter referred to as "non-inert construction waste").

Management of abandoned construction and demolition materials

abandoned C&D materials. The charge rates would be revised² from April 2017. After implementation of the new charge rates and based on the forecasted costs for 2017-2018, the fill-material charge and the landfill charge would attain full-cost recovery and the sorting charge would attain a cost recovery rate of 66%;

- under the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Cap. 354N), a main contractor who undertakes construction works with a contract valued \$1 million or above should, within 21 days after being awarded the contract, make an application to EPD to establish a billing account, so that EPD could charge the contractor for disposal of abandoned C&D materials in respect of that contract (hereinafter referred to as "the 21-day requirement"). Any person failing to comply with the 21-day requirement without reasonable excuse might commit an offence. From December 2005 to December 2015, 2 724 (14%) of 19 453 applications did not meet the 21-day requirement, and some applicants even took 2 127 days to make applications after contract award, but EPD had only taken prosecution actions against 338 cases;
- according to the Waste Disposal (Designated Waste Disposal Facility) Regulation, abandoned C&D materials being disposed of at sorting facilities must meet the inert-content requirement (i.e. contained more than 50% of fill materials by weight), so that the fill materials could be extracted for reuse. With a 50% threshold, it was expected that around 50% of the abandoned C&D materials accepted at sorting facilities would be recovered as fill materials. However, only 28% on average (ranging from 14% to 44%) of the abandoned materials were recovered as filled materials from 2006 to 2015, which indicated that the inert-content of many vehicle loads accepted did not meet the above requirement;
- there had been significant increases in the quantities of illegal dumped C&D materials found and cleared by government departments since the implementation of the charging scheme. In 2015, 6 300 tonnes of illegally dumped C&D materials were cleared by government departments;

² Under the new charge rates, fill-material charge, sorting charge and landfill charge would be increased to \$71 per tonne, \$175 per tonne and \$200 per tonne respectively.

Management of abandoned construction and demolition materials

- a trial scheme was implemented from August 2015 to February 2016 to detect illegal dumping activities by installing surveillance camera systems at 12 black-spot locations. Although the systems had captured images of vehicles involving in illegal dumping of C&D materials, EPD did not take prosecution actions in 122 cases because:
 - (a) images of vehicle registration marks captured were unclear;
 - (b) vehicle owners concerned could not be contacted for taking prosecution actions as the letters sent to them were returned unclaimed;
 - (c) vehicle owners or drivers concerned did not provide case details;
 - (d) there was a long lapse of time in handling the cases; and
 - (e) responsible drivers claimed the dumping was carried out under the instruction of persons who had hired the delivery service; and

- from 2007 to 2014, 73.67 Mt (59%) of the total 125.65 Mt of fill materials generated in Hong Kong were exported to Taishan on the Mainland. However, as the quantity of fill materials for export to Taishan was subject to agreement between the Environment Bureau and the related Mainland authority on a yearly basis, there might be a risk that Taishan would not absorb all surplus fill materials generated in Hong Kong in a particular year and in the long run.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the review of the level of charges under the charging scheme, the guidelines on factors for consideration in taking prosecution actions against persons not complying with the 21-day requirement, measures to prevent and detect illegal dumping, as well as the ability of Taishan and the availability of other destinations to absorb surplus fill materials. The replies from **Director of Environmental Protection** and **Director of Civil Engineering and Development** are in *Appendices 30* and *31* respectively.

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

Hospital Authority's drug management

The Audit Commission ("Audit") conducted a review of the Hospital Authority ("HA")'s drug management.

2. Since 2005, to ensure safety, efficacy and cost effectiveness, HA has implemented the HA Drug Formulary ("HADF") for standardizing drug policy and drug utilization in all public hospitals and clinics. HADF drugs are intended for corporate-wide use benefiting the entire local population, and most HADF drugs prescribed to patients are included in standard fees charged for services provided. To suit its specific needs, each hospital may select drugs from HADF to draw up its own formulary, which describes the scope of drugs used in the hospital. A hospital may acquire a new drug not listed on HADF ("non-HADF drug") in emergency/life-threatening situations or specific circumstances. If a hospital intends to include the new drug in HADF, it should follow the procedure and submit an application to HA's Drug Advisory Committee which is responsible for evaluating applications for listing new drugs on HADF. As at April 2016, HADF consisted of 1 295 drugs (or 2 708 drug items).¹ In 2015-2016, the costs of drugs used by HA patients totalled \$5,710 million, representing about 10% of HA total expenditure.

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

- in 2015-2016, 362 non-HADF drug items were used by public hospitals and clinics, an increase of 25% from 290 items in 2013-2014. Compared to 2013-2014, the expenditure on non-HADF drugs had escalated to \$249 million (increased by 180%) in 2015-2016, representing 4.4% of HA total drug expenditure. According to HA, non-HADF drugs were to cater for the clinical needs of individual patients in exceptional situations, but no mechanism was established to make them available to all patients having relevant clinical needs. Non-HADF drugs might not be registered drugs or might not fulfil the criteria for incorporation into HADF, but their use on individual basis based on clinical needs was still justifiable;
- the 362 non-HADF drug items used in 2015-2016 comprised 95 items (73 drugs) which had been registered in Hong Kong and 267 unregistered ones. For 28 of these 73 registered drugs, applications for listing on HADF had been rejected during the period

¹ A drug may be available in different dosage forms, such as in tablet or syrup form of different dosages. Each form is known as a drug item.

Hospital Authority's drug management

January 2009 to January 2016 one to four times for various reasons, including insufficient justification of the treatment cost in relation to the benefits, in which 12 drugs had been rejected more than one time;

- HA had not provided clear written guidelines for managing the use and charging of non-HADF drugs. Different hospitals had different practices in the approval procedures for the prescription and charging of non-HADF drugs by doctors;
- while there were on average 850 new drug items registered in Hong Kong per year between 2013 and 2015, only 51 drugs were added to HADF from 2013-2014 to 2015-2016. Few HA hospitals and clinics regularly applied for new drug listing. Some non-HADF registered drugs were in regular demand and stocked, but no applications for listing on HADF had been made;
- according to HA's current drug procurement practices, bulk contracts were established for procuring some drug items with annual purchase amount exceeding \$100,000. For drug items not covered by bulk contracts, hospitals could purchase them directly from suppliers. Of the 1 019 drug items purchased directly by hospitals in 2015-2016, 520 drug items had purchase amounts (aggregating all hospitals) exceeding \$100,000, involving expenditure totalling \$406 million. If the demands of individual hospitals could be consolidated for establishing bulk contracts, procurement costs could be saved and more economies of scale achieved. Audit also discovered that 193 (expenditure totalled \$328 million) of the 520 drug items might be procured through bulk supply contracts by tender. Moreover, repeated direct purchases by hospitals had occurred within a short period, with total purchase amount exceeding \$100,000;
- during 2013-2014 to 2015-2016, the number of complaints about late delivery of drugs by a supplier increased by 183% from 65 to 184. HA might convene a Performance Review Group meeting to review the supplier's performance for necessary follow-up actions, but no such meetings had been held for the abovementioned supplier;
- Audit visited four HA hospitals and noted that they had not re-ordered a total of 756 drug items whose stock levels were below the re-order

Hospital Authority's drug management

levels. Of these 756 drug items, the stock level of 182 items were even below the minimum levels;²

- the average period of time covered by a prescription had been increasing from 2010-2011 to 2014-2015, while overseas experience indicated that prescribing large quantities of drugs for a long period of time could lead to drugs being unused and wasted;
- 32 incidents of missing dangerous drugs occurred during 2011-2012 to 2015-2016, but HA could not identify the direct causes in 27 incidents, and four of these 27 incidents happened in one hospital. Five incidents had not been reported to the Department of Health after a lapse of 425 to 1 494 days since the drugs were found missing;
- HA commissioned laboratories to conduct sample testing of drugs and requested suppliers to investigate complaints about drug quality. However, there were delays in completing the tests and investigations,³ 41% of the test reports were not submitted within the required time in 2014-2015, which might cause delay in taking necessary action to mitigate the risk of sub-standard drug items;
- to enhance the monitor of drug quality, HA commissioned a local laboratory since 2012 to inspect the premises of selected drug suppliers. From 2013-2014 to 2015-2016, HA received 51 drug quality complaints which were related to one supplier, but HA had not conducted any inspection visit to the premises of that supplier as at June 2016;
- suppliers involving drug quality complaints would be requested to investigate the issue and provide investigation reports within one month for its follow-up. HA received 343 drug quality complaints in 2015-2016. The total time taken by HA to complete investigation for 227 cases exceeded one month. Of these 227 cases, suppliers failed to report within the time frame in 138 cases;

² HA's computerized Enterprise Resource Planning System computes the re-order level for each drug item (i.e. six-week consumption) with reference to its average consumption in the preceding eight weeks. It generates management reports daily, showing drug items with balances below their re-order levels and minimum levels (i.e. four-week consumption).

³ According to the contracts signed between HA and the laboratories, the laboratories should submit reports on microbiological testing results within 20 working days, and reports on chemical testing results within 90 calendar days.

Hospital Authority's drug management

- the Government's healthcare policy was to ensure that no one was prevented, through lack of means, from obtaining adequate medical treatment. However, self-financed drugs were services that fell outside the scope of this policy. For some self-financed drugs proven to be of significant benefits but extremely expensive for HA to provide as part of its subsidized services, subsidies were provided through the Samaritan Fund ("SF") and the Community Care Fund ("CCF"). As at April 2016, SF and CCF only covered 30 self-financed drugs (hereinafter referred to as "self-financed drugs with safety net"). For another 47 self-financed drugs listed on HADF which were not covered by SF and CCF (hereinafter referred to as "self-financed drugs without safety net"), no financial assistance would be provided to patients for purchasing them. 18 of these 47 drugs were used for treatment of certain cancers. From 2013-2014 and 2014-2015, the number of self-financed drugs without safety net prescribed to out-patients was much greater than that for self-financed drugs with safety net; and
- the subsidies under SF and CCF were provided for needy patients only. HA would conduct sample checks on the approved SF/CCF cases. During 2010-2011 to 2015-2016, under-reporting of income and/or assets were found in 591 (43%) of the 1 369 cases with post-approval checks completed. The follow-up time of some significant under-reporting cases was long.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the utilization of non-HADF drugs and unregistered drugs, the progress of setting up a mechanism to monitor and analyze the use of non-HADF drugs, the inclusion criteria for listing on HADF, the charging principles of non-HADF drugs, the guidelines for procuring and dispensing drugs, the report mechanism for and follow-up actions on missing dangerous drugs, measures to monitor drugs quality, and measures to improve the financial assistance programmes for purchasing self-financed drugs. The consolidated replies from **Secretary for Food and Health, Chief Executive of HA** and **Director of Health** are in *Appendix 32*.

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

Funding of academic research projects by Research Grants Council

The Audit Commission ("Audit") conducted a review of funding of academic research projects by the Research Grants Council ("RGC").

2. Hong Kong adopts a dual funding system for research at universities funded by the University Grants Committee ("UGC") (hereinafter known as "the universities"). The Research Portion of UGC's recurrent grants¹ is disbursed to the universities as infrastructure funding to enable the universities to provide the human capital and the facilities necessary to carry out research, as well as to fund a certain level of research. The universities would also seek funding from RGC for the conduct of research projects on a competitive basis.

3. RGC operates under the aegis of UGC and functions as a non-statutory advisory body on research matters. It administers 19 funding schemes, and has established 10 committees and 18 panels to assist its work. The amount of funds granted under RGC funding schemes increased by 20% from \$1,074.3 million in 2011-2012 (all years mentioned hereinafter refer to academic years) to \$1,288.5 million in 2015-2016.

4. Hon Abraham SHEK Lai-him declared that he was currently a member of the Court and Council of the University of Hong Kong, and a member of the Court of The Hong Kong University of Science and Technology.

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

- RGC's members are appointed by Secretary for Education under the delegated authority of the Chief Executive of the Hong Kong Special Administrative Region. The Government has promulgated the six-year rule to ensure a healthy turnover of members of advisory and statutory bodies. However, out of the 48 RGC's members appointed in the period 2011-2012 to 2015-2016, eight of them had continuously served RGC for more than six years;

¹ Please see Chapter 2 of Part 7 of this Report for "Funding of universities by University Grants Committee".

Funding of academic research projects by Research Grants Council

- RGC had not promulgated rules of procedure governing the conduct of meetings for the Council, its 10 committees and 18 panels. In the period 2013-2014 to 2015-2016, no minutes had been prepared for all the meetings of five committees and 10 panels;
- one of the terms of reference of RGC is to approve awards from funds for research. When Council meetings were held to approve the projects, only the total number of projects and the total amount of funding to be approved were provided to the Council. For six funding schemes, there was no documentary evidence showing that the Council had been provided with any information on individual projects. Furthermore, some projects were approved without documented declarations of interests;
- 23 of 56 Register of Interests Forms of Council members for 2011-2012 and 2012-2013 could not be located. In 2015-2016, 179 of the 211 panel members for the individual research schemes submitted or updated the Forms late, with delays averaging 53 days;
- Audit reviewed the 3 314 projects approved in the period 2013-2014 to 2015-2016 in respect of the General Research Fund, the Early Career Scheme and the Humanities and Social Sciences Prestigious Fellowship Scheme, and noted that for six projects, the principal investigators were four RGC members. However, no documentation was available showing that declarations of interests had been made before or during the meetings at which funding was awarded;
- universities are required to submit progress and completion reports for research projects funded by RGC. As at 31 May 2016, there were 973 completion reports received but not assessed, of which 678 (69.7%) reports had been received for over one year. In extreme cases, four reports had been submitted more than nine years ago but were still pending assessment;
- the Disciplinary Committee of RGC completed the investigation of five misconduct cases (e.g. plagiarism) discovered during the processing of the funding applications for the 2015-2016 exercise and made a recommendation to RGC for approval in December 2015. However, since RGC decided in June 2015 to separate the role of investigating allegations from the role of imposing penalties for substantiated cases, the recommendation on penalties for these five substantiated cases was

left to the newly formed Disciplinary Committee (Penalty). Consequently, up to August 2016, the five substantiated misconduct cases were still pending determination of the level of penalty;

- Audit examined 26 alleged misconduct cases handled by RGC and noted that the time taken from the discovery of the suspected misconduct cases to the notification of investigation results and the penalty to the universities concerned ranged from one to four years (averaging one-and-a-half years); and
- statistical information on research outputs (i.e. the total number of research outputs, the total number of referred research outputs and the total number of research outputs per academic staff) is submitted to UGC members by the UGC Secretariat annually. Audit noted that, from 2010-2011 to 2014-2015, the total number of research outputs of the universities decreased slightly by 2.6% and the overall research output per academic staff for the universities decreased by 9%, whereas research funding provided by UGC and RGC increased by 26%.

6. The Committee did not hold any public hearing on this subject. It conducted a visit to RGC on 13 December 2016 to better understand the administration of the RGC funding schemes. The Committee also asked for written responses regarding the appointment of RGC's members, the rules of procedure governing the conduct of meetings for RGC, its committees and panels, measures to improve the approval process of funding applications and the management of conflicts of interest, the monitoring of funded projects and the handling of alleged misconduct cases by RGC. The replies from **Secretary for Education** are in **Appendix 33** and the replies from **Secretary-General of UGC** are in **Appendices 34** and **35**.

Photograph 1



Members of the Committee were briefed on the administration of the RGC funding schemes by RGC Chairman.

7. 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 to examine sewerage systems in rural areas.

2. According to the Environmental Protection Department ("EPD"), as of April 2016, about 395 000 population in Hong Kong mainly relied on septic-tank-and-soakaway ("STS") systems for treating their sewage or dry-weather-flow interceptors for reducing pollution caused by untreated sewage. Under the Water Pollution Control Ordinance (Cap. 358) ("WPC Ordinance"), EPD is responsible for monitoring the water quality of rivers and coastal areas, and controlling pollution of these water bodies. EPD has formulated 16 Sewerage Master Plans that set out at regional/district level sewage collection, treatment and disposal programmes, including village sewerage ("VS") programmes to provide public sewerage systems for unsewered villages and squatter areas to reduce pollution. Expenditure for the implementation of the VS programmes from 1989-1990 to 2015-2016 totalled \$8.2 billion, and further expenditures were estimated at \$2.7 billion from 2016-2017 to 2025-2026.

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

- level of *Escherichia coli* ("*E. coli*") in water was used as an indicator of faecal contamination and pollution. In 2015, of the 71 EPD river monitoring stations in areas with Water Quality Objectives on *E. coli*¹ established, the average levels of *E. coli* found at 63 (89%) stations exceeded the statutory Water Quality Objectives levels. For the Yuen Long District and the North District which had many unsewered villages, in 2015, the average levels of *E. coli* at 14 (58%) of the pertinent 24 river monitoring stations exceeded 10 000 *E. coli* per 100 millilitres of water, indicating that sewage might have been discharged from unsewered villages;
- licensing for STS systems under the WPC Ordinance was not a mandatory requirement, and failure to obtain a licence was not an offence. As of August 2016, only 1 912 of the about 154 000 unsewered village houses and residential squatters had been issued with licences for their STS systems. Also, EPD did not:

¹ Various Water Quality Objectives expressed in numerical or narrative form had been established under the WPC Ordinance to describe the water quality to be achieved in order to promote the conservation and best use of Hong Kong waters.

Sewerage systems in rural areas

- (a) conduct periodic inspections of STS systems installed for unsewered houses;
 - (b) ascertain the number, conditions, extent and effectiveness of all dry-weather-flow interceptors; and
 - (c) maintain a database for STS systems;
- some of the village-house sewerage requirements stipulated under the certificate of exception issued by the Lands Department for pertinent drainage works in the New Territories were not on par with those stipulated under EPD's practice note issued in 1993;²
 - since 2000, the Food and Environmental Hygiene Department ("FEHD") had advertised on its website the provision of desludging service. However, FEHD had only provided desludging service to members of the public on 34 occasions from 2000 to 2002, and it had not provided such service to the public from January 2003 to August 2016;
 - the Drainage Services Department had designated three sewage treatment plants³ for receiving excretal matter from private desludging operators. As of April 2016, 78 private desludging operators (having a total of 317 desludging vehicles) were involved in the provision of related services, but none of them had obtained licences from EPD or FEHD, contrary to the requirements under the Waste Disposal Ordinance (Cap. 354);
 - EPD and FEHD had received a total of 55 complaints on environmental problems related to desludging operations from 2010 to 2015. From October 2013 to October 2014, EPD and FEHD found excretal matter having been illegally disposed of at a hill top in the North District on eight occasions, but no suspects were identified;
 - according to EPD's study reports on the Sewerage Master Plans and the subsequent reviews, STS systems were generally not installed in

² EPD issued the practice note "Drainage Plans subject to Comment by the Environmental Protection Department" stipulating the technical requirements for an STS system for Authorized Persons in preparing drainage-plan submissions.

³ The Ap Lei Chau Preliminary Treatment Works, the Pillar Point Sewage Treatment Works and the Sai Kung Sewage Treatment Works.

Sewerage systems in rural areas

- squatter areas and untreated sewage generated from the squatters was therefore mostly directly discharged into the nearby rivers or water bodies, causing water pollution and environmental problems;
- in 2007, the Administration sought funding approval of \$33 million from the Finance Committee of the Legislative Council for implementing a sewerage project for a squatter area near the midstream of Tuen Mun River ("Squatter Area A"), covering 278 squatters (involving 1 100 residents). According to EPD's estimation, 80 % of the squatters would be connected to the new sewerage system. The public sewerage works at Squatter Area A were completed in May 2011. However, apart from eight squatters which did not have any resident, only 112 (41%) of the remaining 270 squatters had been connected to public sewers up to June 2016;
 - the target completion dates of VS programmes for 662 villages in eight SMP areas had been deferred from between 2004 and 2009 to between 2013-2014 and 2017-2018. As of June 2016, public sewerage works for 407 (61%) villages were still under planning. A VS project in Tuen Mun, having an approved project estimate ("APE") of \$1,340 million, was delayed mainly due to the need to divert unrecorded underground utilities. For another VS project in Shatin and Tai Po with an APE of \$381.4 million, there was a slippage of 25 months in completing the works owing to objections on private land resumption;
 - as of June 2016, of the 14 710 village houses located at 178 villages covered by public sewers, 4 531 (31%) had not been connected to the sewers;
 - according to EPD, the majority of sewer-connection works would be completed by village-house owners between two and five years after completion of public-sewer works. However, Audit examination of the progress of sewer connections at five villages and one squatter area (with a total of 385 houses suitable for sewer connection) revealed that, as of June 2016, while the related public sewerage works had been completed 5 to 15 years ago, only 144 (37%) houses had been connected to public sewers. In one case involving public sewerage works having an APE of \$2.7 million being carried out for two elderly homes and a village comprising 56 houses in Yuen Long, owing to objections of village representatives of 49 houses, public sewerage

works for these 49 houses were not carried out. Public sewerage works for the remaining seven houses were completed in December 2000, but none of these houses had been connected to public sewers up to June 2016, and EPD had not served statutory notices nor taken prosecution actions against the related village-house owners in accordance with EPD's "Enforcement Guidelines on Sewer Connection". In another case involving public sewerage works having an APE of \$125.1 million for eight unsewered areas, which included a village comprising 62 houses where the works were completed in June 2006, only 12 (19%) houses had been connected to public sewers up to June 2016; and

- as of September 2016, EPD's computerized database did not record the addresses and sewer connection information of 4 283 village houses which were located in areas covered by public sewers, while the information of these houses was kept in paper files on individual villages maintained by EPD's Regional Offices. Audit also found inadequacies in the computerized database.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the controls over sewage discharged from unsewered villages, statutory requirements and problems of STS systems and relevant pollution prevention measures, licensing for desludging services, delays in VS programmes, actions to prevent illegal dumping of excretal matter, sewer-connection progress of village houses and EPD's computerized database for village houses. The consolidated replies from **Secretary for the Environment and Director of Environmental Protection**, and the replies from **Director of Drainage Services, Director of Food and Environmental Hygiene** and **Director of Lands** are in *Appendices 36* to *39* respectively.

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

Joint-office operation on water seepage in buildings

The Audit Commission ("Audit") conducted a review to examine the efficiency and effectiveness of the joint-office ("JO") operation set up by the Food and Environmental Hygiene Department ("FEHD") and the Buildings Department ("BD") in handling water-seepage cases.

2. To improve coordination between staff of FEHD and BD in the handling of water-seepage cases reported by the public, shorten the investigation time and improve the success rate of identifying the seepage source of these cases, JO operation comprising staff of FEHD and BD was set up in July 2006 in offices of 19 FEHD districts ("DOs"). FEHD staff has the enforcement power under the Public Health and Municipal Services Ordinance (Cap. 132) ("PH&MS Ordinance"), and BD staff possesses building-survey expertise. From January 2007 to March 2016, JO operation had completed 196 926 water-seepage cases (on average about 21 000 cases a year), and out of these cases, 49% were screen-out cases without carrying out any investigation to trace seepage source, 21% were withdrawal cases or the water seepage had ceased, 9% were unsuccessful cases failing to identify seepage source after investigations, and 21% were successful cases with source of seepage identified. As at March 2016, 211 FEHD JO staff and 63 BD JO staff were involved in the JO operation. The cost of JO operation totalled \$129 million in 2014-2015.

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

- success rate of identifying the source of seepage had decreased from 46% in 2007 to 36% in 2015;
- 9 710 (34%) of the 28 332 cases having actions completed from April 2015 to March 2016 had exceeded the 133-day overall reference time frame set by FEHD and BD. As of March 2016, 643 (2%) cases had taken 2.2 to 7.5 years to complete, and 15 564 cases were outstanding with 6 368 (41%) cases exceeding 133 days;
- during investigations of water-seepage cases, staff of FEHD JO and/or BD JO would carry out preliminary assessments of whether the cases might involve building defects or leaking water-supply pipes, and refer relevant cases to BD Existing Buildings Divisions and the Water Supplies Department ("WSD") respectively for follow-up actions. Audit discovered that, although FEHD guidelines required

Joint-office operation on water seepage in buildings

FEHD JO staff to maintain a list of cases referred to BD and WSD, eight DOs did not maintain such a list. Meanwhile, both FEHD and BD could not provide Audit with the number of cases that had been referred by JO operation to BD Existing Buildings Divisions from 2011 to 2015. Audit also noted discrepancies between the number of cases referred to WSD under JO operation and the number of cases received and recorded by WSD;

- FEHD required its JO staff of 19 DOs to maintain in each district a Water-seepage Case Monitoring Database and a Nuisance Notices Monitoring List. However, Audit discovered that some DOs did not have the following information, which should have been kept in databases/monitoring lists:
 - (a) dates of conducting coloured-water tests¹ and inspecting the test results;
 - (b) dates of issuing nuisance notices and their expiry dates;
 - (c) dates of referring a case to FEHD Prosecution Section; and
 - (d) the related follow-up actions and results;
- FEHD also maintained a Complaints Management Information System ("CMIS") to record information of all public enquiry and complaint cases received on its services and operations, including water-seepage reports. In July 2012, FEHD engaged a contractor at a cost of \$7.3 million to develop a new CMIS, and the new CMIS was rolled out by phases for implementation in 19 FEHD DOs from December 2014 to December 2015. However, FEHD JO staff did not fully adopt the new CMIS, and new functions of CMIS had not been fully implemented, which caused inefficiency for the management to monitor performance and progress of the cases;
- FEHD and BD were maintaining separate computer systems for monitoring water-seepage cases; and

¹ If water seepage was suspected to have originated from defective drainage or sewage pipes, investigators would apply coloured water to drainage and sewage outlets and observe any appearance of the coloured water at the affected areas.

Joint-office operation on water seepage in buildings

- BD JO staff outsourced the Stage III investigations of water-seepage cases² to service contractors. However, the contracts did not provide incentives for contractors to achieve higher success rates. BD JO staff also did not compile and make reference to contractors' success rates of identifying the seepage source of cases assigned to them. From April 2014 to April 2015, the success rates of the nine contracts ranged from 23% to 67%. Some contractors took a long time to complete investigations. As of April 2016, of the 5 457 cases covered by the contracts from April 2014 to April 2015, 3 337 (61%) cases did not meet the 30-day target time frame for conducting tests, with 85 (2%) cases taking 1.1 to 2.1 years to complete the task. However, BD had not issued any warning letter or adverse performance report to related contractors.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the monitoring mechanisms for the handling of water-seepage cases by FEHD and BD and the effectiveness of JO operation. The replies from **Director of Food and Environmental Hygiene** and **Director of Buildings** are in *Appendices 40* and *41* respectively.

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

² In response to a public report on water seepage, the related FEHD JO staff would visit the affected premises to examine whether the water seepage might infringe any of the PH&MS Ordinance, the Buildings Ordinance (Cap. 123) and the Waterworks Ordinance (Cap. 102), and if the moisture content of the seepage was 35% or above (i.e. Stage I investigations). If a Stage I investigation found that the seepage might infringe the PH&MS Ordinance and that the moisture content of the seepage was 35% or above, the FEHD JO staff would carry out tests to trace the seepage source (i.e. Stage II investigations). If a Stage II investigation failed to identify the seepage source, the case would be forwarded to BD JO staff for further tests to detect the seepage source (i.e. Stage III investigations).

Audience building activities for performing arts

The Audit Commission ("Audit") conducted a review of the audience building activities conducted by the Leisure and Cultural Services Department ("LCSD") for performing arts.

2. As part of its profile, LCSD aims to promote performing arts through audience building, venue management and presenting programmes. Organizing audience building activities (e.g. exhibitions, lectures, workshops, training courses and performances) to promote appreciation of performing arts is a crucial part of the work. Six LCSD units are responsible for the work, i.e. Audience Building Office ("ABO"), Urban Venues Section, New Territories Venues Section, Cultural Presentations Section and Festivals Office grouped under the Performing Arts Division (for all forms of performing arts and music activities), and the Music Office ("MO") grouped under the Libraries and Development Division (for music activities only). In 2015-2016, the six LCSD units organized some 4 700 audience building activities with some one million participants. The direct costs of organizing audience building activities for ABO and MO were \$87 million, but such costs could not be separated from the overall operation costs of other four LCSD units.

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

- LCSD had not prepared an overarching annual programme plan on performing arts. Management information on audience building activities organized for each key art form was not being compiled;
- in 2015-2016, ABO commissioned arts groups to conduct 563 audience building activities under its community schemes, and the arts groups reported a total of some 155 000 participants. However, Audit found cases in which the number of participants might not have been counted properly, and LCSD had not issued guidelines on counting the number of participants nor reviewed the head count methodology adopted by arts groups. Many activities were free of charge and conducted in public areas or venues open to the public, and many participants were just passing by or stayed at the activities briefly;
- in 2015-2016, only 222 of 563 audience building activities under community schemes were conducted at LCSD venues as LCSD generally would not offer its venues for conducting activities of the community schemes;

Audience building activities for performing arts

- in 2015-2016, MO's music training schemes had the highest cost of \$5,981 per person reached,¹ compared to \$1,334 per person for its short-term outreach music interest courses and \$116 per person for its other music activities;
- Music Officer grade staff had used only 36% of their work hours for delivering music training courses and activities, and 64% for administrative and other duties. On the other hand, MO had increased the hiring of part-time instructors to deliver music training to augment music skills not available in MO;
- Audit analyzed the sizes of 609 music training classes organized by MO in 2015-2016, and found that 67 classes (11%) had a very small class size (ranging from one to four trainee(s)) compared with the specified standard class size (mostly ranging from 5 to 10 trainees);
- from 2013-2014 to 2015-2016, MO delivered about 43 000 training sessions under music training schemes and outreach music interest courses per year, which was equivalent to only 29% of the capacity of its 45 training facilities in music centres;²
- Audit found out that in November 2015, 45 MO training facilities were almost unused on weekdays before 4 pm, and their utilization on weekdays after 4 pm and at weekends was only 70%. However, it was not MO's practice to promote the use of training facilities for purposes other than delivering training classes under music training schemes and outreach music interest courses;
- in 2015-2016, LCSD had reduced the number of audience building activities at foyers/piazzas of LCSD performing arts venues by 44% because of budget prioritization, New Territories performing venues even stopped organizing such activities in 2016. However, Audit noted that, when collaborating with non-governmental organizations and private sector partners, organizing such activities attracted interested audience and did not always incur additional costs;

¹ For the music training schemes, the cost per person reached represented the annual cost of services provided for training one trainee, which involved the provision of many training sessions (e.g. around 39 one-hour sessions for a trainee who received instrumental training).

² The music centres opened 63.5 hours per week (i.e. from 9:30 am to 8 pm on weekdays and from 9 am to 6 pm during weekends, with a one-hour lunch break). For the 45 training facilities of the music centres (i.e. 40 training rooms and 5 rehearsal rooms), the total annual capacity was 148 590 sessions (i.e. $63.5 \times 52 \times 45$).

- during 2011-2012 to 2015-2016, the utilization rates of minor facilities (e.g. function rooms, rehearsal rooms, practice rooms and studios) in LCSD performing arts venues were only between 47% and 52%;³ and
- although LCSD's Venue Partnership Scheme for performing arts groups helped audience building, 2 of 14 LCSD venues had not been open for partnership application as at June 2016. LCSD also had not taken actions to recruit partners for two other venues to replace those who had withdrawn from the Venue Partnership Scheme in April 2016.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the way forward for MO, the utilization of MO staff resources in delivering training and music activities, and measures to improve the utilization rates of LCSD performing arts venues and MO training facilities. The replies from **Director of Leisure and Cultural Services** are in *Appendix 42*.

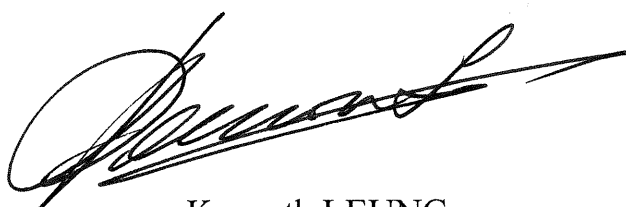
5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.

³ As at June 2016, there were 72 minor facilities in 14 LCSD performing arts venues.

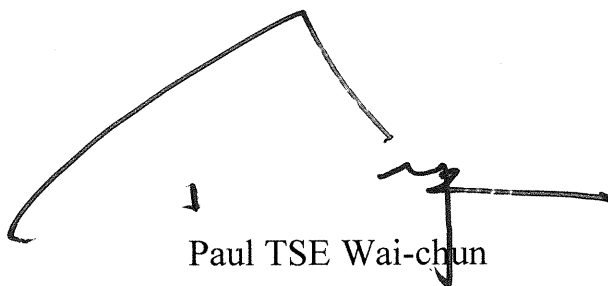
SIGNATURES OF THE CHAIRMAN,
DEPUTY CHAIRMAN AND MEMBERS OF THE COMMITTEE



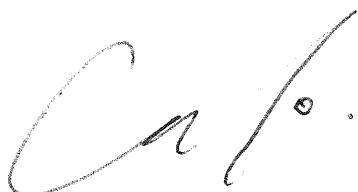
Abraham SHEK Lai-him
(Chairman)



Kenneth LEUNG
(Deputy Chairman)



Paul TSE Wai-chun



Steven HO Chun-yin



LAM Cheuk-ting



SHIU Ka-fai



Tanya CHAN

6 February 2017

**CHAPTERS IN THE DIRECTOR OF AUDIT'S REPORT NO. 67
DEALT WITH IN THE PUBLIC ACCOUNTS COMMITTEE'S REPORT**

**Director of
Audit's Report
No. 67**

**P.A.C.
Report No. 67**

<u>Chapter</u>	<u>Subject</u>	<u>Chapter</u>
1	Maintenance and safety-related improvements of public rental housing flats	1
2	Funding of universities by University Grants Committee	2
3	Procurement and maintenance of fire services equipment	3
4	Management of abandoned construction and demolition materials	4
5	Hospital Authority's drug management	5
6	Funding of academic research projects by Research Grants Council	6
8	Sewerage systems in rural areas	7
9	Joint-office operation on water seepage in buildings	8
10	Audience building activities for performing arts	9

**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.

Our Ref.: (30) in FEHD H&M-M/37-65/15/2C
Your Ref.: CB4/PAC/CS(64&65)

2 February 2017

Legislative Council
Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn. : Mr Anthony Chu, Clerk)
(Fax No. 2543 9197)

Dear Mr Chu,

Follow-up to Public Accounts Committee Report No. 64

**Public cooked food markets managed by
The Food and Environmental Hygiene Department**

Thank you for your letter of 10 January 2017 concerning the captioned subject. Please find attached a consolidated response of Food and Health Bureau and Food and Environmental Hygiene Department for the information requested. For enquiry, please contact the undersigned at telephone number 2867 5357.

Yours sincerely,



(LAM Wing-hong)

for Director of Food and Environmental Hygiene

Encl.

c.c. Secretary for Financial Services and the Treasury (Fax No. : 2147 5239)
Director of Audit (Fax No. : 2583 9063)
Secretary for Food and Health (Attn. : Ms Diane Wong)
(Fax No. :2136 3281)

Follow-up to Public Accounts Committee Report No. 64

Public cooked food markets managed by The Food and Environmental Hygiene Department

According to the established mechanism, a request for the retrofitting of air-conditioning at a public market will first be discussed at a meeting of the relevant Market Management Consultative Committee (MMCC). Where there is a consensus among members of the MMCC that the request should be further explored, the Food and Environmental Hygiene Department (FEHD) will conduct a questionnaire survey to gauge the extent of support from market tenants for the request. Our responses to the questions related the above as raised by the Public Accounts Committee on 10 January 2017 are set out below.

- (a) Since 1 July 2015, the threshold of tenants' support to retrofitting of air-conditioning facilities in public markets has been lowered from 85% to 80%. FEHD has completed the consultation with the MMCCs of public markets without air-conditioning. The MMCCs of 27 public markets (including eight Cooked Food Centres (CFCs) and two Cooked Food Markets (CFMs)) supported conducting a questionnaire survey to collect the tenants' views on the retrofitting of air-conditioning. The questionnaire surveys were subsequently conducted and completed. Out of the 27 public markets surveyed, six CFCs and one market attained sufficient tenant support. They are Electric Road Market CFC, Fa Yuen Street Market CFC, Ngau Chi Wan Market CFC, Ngau Tau Kok Market CFC, Quarry Bay Market CFC, Shek Tong Tsui Market CFC and Yeung Uk Road Market. In addition, Tai Wai Market, Shui Wo Street Market CFC and Aberdeen Market-cum-CFC, on which questionnaire surveys were conducted before 1 July 2015, have also met the tenants' support threshold.

With the assistance of the Architectural Services Department, FEHD is following up the proposed retrofitting of air-conditioning at the above-mentioned CFCs/markets by conducting technical feasibility studies. The technical feasibility studies will help determine the extent of works required, cost effectiveness, and disruption to business and market operation.

- (b) Lowering of the tenants' support threshold will make it easier for stall tenants of CFC/CFM to gather sufficient level of support for the Government to start the technical feasibility studies. Actual installation

of air-conditioning system depends on a number of factors, including whether the existing design and layout of the CFC/CFM allows sufficient space and headroom for plant rooms, transformer rooms and necessary ducting, whether the retrofitting works is cost-effective, as well as whether other implementation details (such as the duration of market closure, the number of stalls that may have to be deleted, and business disruption to tenants due to the works involved, etc.) are acceptable to the tenants concerned. We consider it reasonable to adopt a gradual and prudent approach in reviewing the threshold, with particular regard to the need for striking a proper balance among the interests of various stakeholders including those who are not in favour of the proposal.

- (c) There has been no air-conditioning retrofitting works in FEHD CFMs and CFCs between July 2015 and December 2016. Currently, out of a total of 64 CFMs and CFCs managed by FEHD, 22 CFMs and CFCs are air-conditioned.
- (d) We have not made comprehensive assessment on the effectiveness of installing air-conditioning systems in CFCs and CFMs in improving the vacancy rates of such markets/centres. As an illustration, there was no noticeable change to the occupancy rate in the three CFCs last retrofitted with air-conditioning systems in 2005 before and after the retrofitting works. For details, please refer to the Annex.
- (e) According to the existing practices, the Government bears the capital costs of installing the air-conditioning systems, unlike the usual arrangement adopted by commercial landlords where the capital costs would usually be recovered through subsequent rental adjustment. It is Government policy to recover only the recurrent expenses, including electricity charges and general maintenance costs, from the market tenants. Depending on the actual situation of individual markets, the air-conditioning charges may vary. For the three CFCs last retrofitted with air-conditioning systems in 2005, the average monthly air-conditioning charges payable by each stall range from \$4,000 to \$7,000.

	Yue Wan Market CFC (AC retrofitting completed in Apr 2005)					Bowrington Market CFC (AC retrofitting completed in Apr 2005)					Shek Wu Hui Market CFC (AC retrofitting completed in Nov 2005)				
	Total stall	Occupied	Vacant	Frozen	Occupancy Rate	Total stall	Occupied	Vacant	Frozen	Occupancy Rate	Total stall	Occupied	Vacant	Frozen	Occupancy Rate
as at 30.4.2004	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 31.5.2004	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 30.6.2004	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 31.7.2004	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 31.8.2004	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 30.9.2004	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 31.10.2004	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 30.11.2004	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 31.12.2004	20	20	0	0	100.00%	12	11	1	0	91.67%	28	27	0	1	96.43%
			Average		100.00%			Average		99.07%			Average		96.43%
as at 31.1.2005	20	20	0	0	100.00%	12	11	1	0	91.67%	28	27	0	1	96.43%
as at 28.2.2005	20	20	0	0	100.00%	12	11	1	0	91.67%	28	27	0	1	96.43%
as at 31.3.2005	20	20	0	0	100.00%	12	11	1	0	91.67%	28	27	0	1	96.43%
as at 30.4.2005	20	20	0	0	100.00%	12	11	1	0	91.67%	28	27	0	1	96.43%
as at 31.5.2005	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 30.6.2005	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 31.7.2005	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 31.8.2005	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 30.9.2005	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 31.10.2005	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 30.11.2005	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	0	1	96.43%
as at 31.12.2005	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	1	0	96.43%
			Average		100.00%			Average		99.07%			Average		96.43%
as at 31.1.2006	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	1	0	96.43%
as at 28.2.2006	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	1	0	96.43%
as at 31.3.2006	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	1	0	96.43%
as at 30.4.2006	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	1	0	96.43%
as at 31.5.2006	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	1	0	96.43%
as at 30.6.2006	20	20	0	0	100.00%	12	12	0	0	100.00%	28	28	0	0	100.00%
as at 31.7.2006	20	20	0	0	100.00%	12	12	0	0	100.00%	28	28	0	0	100.00%
as at 31.8.2006	20	20	0	0	100.00%	12	12	0	0	100.00%	28	28	0	0	100.00%
as at 30.9.2006	20	20	0	0	100.00%	12	12	0	0	100.00%	28	26	2	0	92.86%
as at 31.10.2006	20	20	0	0	100.00%	12	12	0	0	100.00%	28	26	2	0	92.86%
as at 30.11.2006	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	1	0	96.43%
as at 31.12.2006	20	20	0	0	100.00%	12	12	0	0	100.00%	28	27	1	0	96.43%
			Average		100.00%			Average		100.00%			Average		96.83%
as at 31.12.2016	20	20	0		100.00%	12	11	1		91.67%	28	28	0	0	100.00%



水務署
Water Supplies Department

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檔號
Reference () in WSD TC 43/2016

Your ref : CB4/PAC/CS(64&65)

17 January 2017

Mr Anthony CHU
Clerk
Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr CHU,

Follow-up to Public Accounts Committee Report No. 64

Management of water supply and demand

Thank you for your letter dated 10 January 2017 requesting for information in regard to the latest progress in implementing the project for supplying reclaimed water for flushing in Northeast New Territories and the Inter-reservoirs Transfer Scheme (IRTS).

I would like to provide the requested information using the same paragraph referencing of your letter as follows -

- (a) Following completion of the pre-construction works in 2016, we have invited tenders for the core infrastructure works related to the supply of

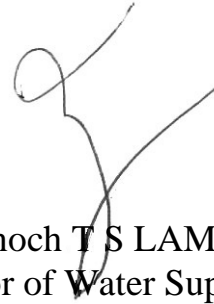
reclaimed water for flushing in Northeast New Territories, which comprise a service reservoir and trunk water mains for commencement in the second quarter of 2017. The remaining infrastructure works including a chlorination plant, a pumping system and local distribution mains are currently under design. On the other front, our consultants have completed a review on the financial and legal framework having regard to international experience and are in the process of developing an appropriate framework in Hong Kong for completion by the end of 2017;

- (b) According to the latest schedule, we will commission the supply of reclaimed water to Northeast New Territories in phases starting from 2022 to Sheung Shui and Fanling. With the commencement of reclaimed water supply at end 2022, the percentages of population covered by fresh water, salt water and reclaimed water supply systems for flushing purpose are estimated to be 12%, 86% and 2% respectively. Upon full commissioning of the project, the salt water and reclaimed water networks altogether will cover about 90% of the total population.

To further reduce the use of fresh water for flushing purpose, we will continue to review the extension of the salt water and reclaimed water supply systems to other areas wherever it is technically and financially justified. Currently, apart from the Tung Chung New Town Salt Water Supply Scheme which is currently under the design stage, we plan to build a centralized greywater reuse system as part of the Anderson Road Quarry Development project; and

- (c) Under the IRTS, the Drainage Services Department will build a tunnel of approximately 2.8 kilometres in length and 3 metres in diameter connecting the Kowloon Byewash Reservoir and the Lower Shing Mun Reservoir to transfer the overflow from the Kowloon Group of Reservoirs to Lower Shing Mun Reservoir for achieving the dual objectives of reducing run-off flowing into the Lai Chi Kok drainage system and converting the overflow into potable water resources. The Drainage Services Department is currently reviewing the detailed design, method statements and related environmental impact assessments of the IRTS in order to enhance its cost-effectiveness and prepare the implementation schedule.

Yours sincerely,



(Enoch T S LAM)
Director of Water Supplies

c.c.	Secretary for Development	(Fax no. 2845 3489)
	Secretary for Financial Services and the Treasury	(Fax no. 2147 5239)
	Director of Audit	(Fax no. 2583 9063)
	Director of Drainage Services	(Fax no. 2827 9352)

香港特別行政區政府
保安局



The Government of the
Hong Kong Special Administrative Region
Security Bureau

香港添馬添美道 2 號

2 Tim Mei Avenue, Tamar, Hong Kong

本函檔號 Our Ref.: (91) in SRD 101/3/R Pt.9

來函檔號 Your Ref.: CB4/PAC/CS(64&65)

23 January 2017

Mr Anthony CHU
Clerk to Public Accounts Committee
Legislative Council
Legislative Council Complex
Central
Hong Kong

Dear Anthony,

**Reply to follow-up to Public Accounts Committee Report No. 31
Recoverability of the outstanding advances to the UNHCR**

With regards to your letter dated 10 January 2017 to the Secretary for Security on the recoverability of the outstanding advances to the United Nations High Commissioner for Refugees (UNHCR), I am authorized to reply as follows.

2. The Government has continued to urge the UNHCR to make renewed efforts to appeal to the international community for donations with a view to settling the outstanding advances, which remain at \$1,162 million. The Security Bureau wrote to the Head of Hong Kong Sub-Office of the UNHCR again in September 2016 and January 2017 to reiterate the Government's stance and register the Hong Kong community's expectation of an early recovery of the outstanding advances.

3. Although it is not optimistic that repayment can be made by the UNHCR in the near future, there is no indication that the UNHCR has withdrawn its commitments to repay such advances. It remains our understanding that UNHCR's reimbursement to Hong Kong will be subject to availability of funds. As such, we do not have any plans to write-off the advances as irrecoverable debt for the time being. The Government will continue to pursue early repayment of the outstanding advances from the UNHCR.

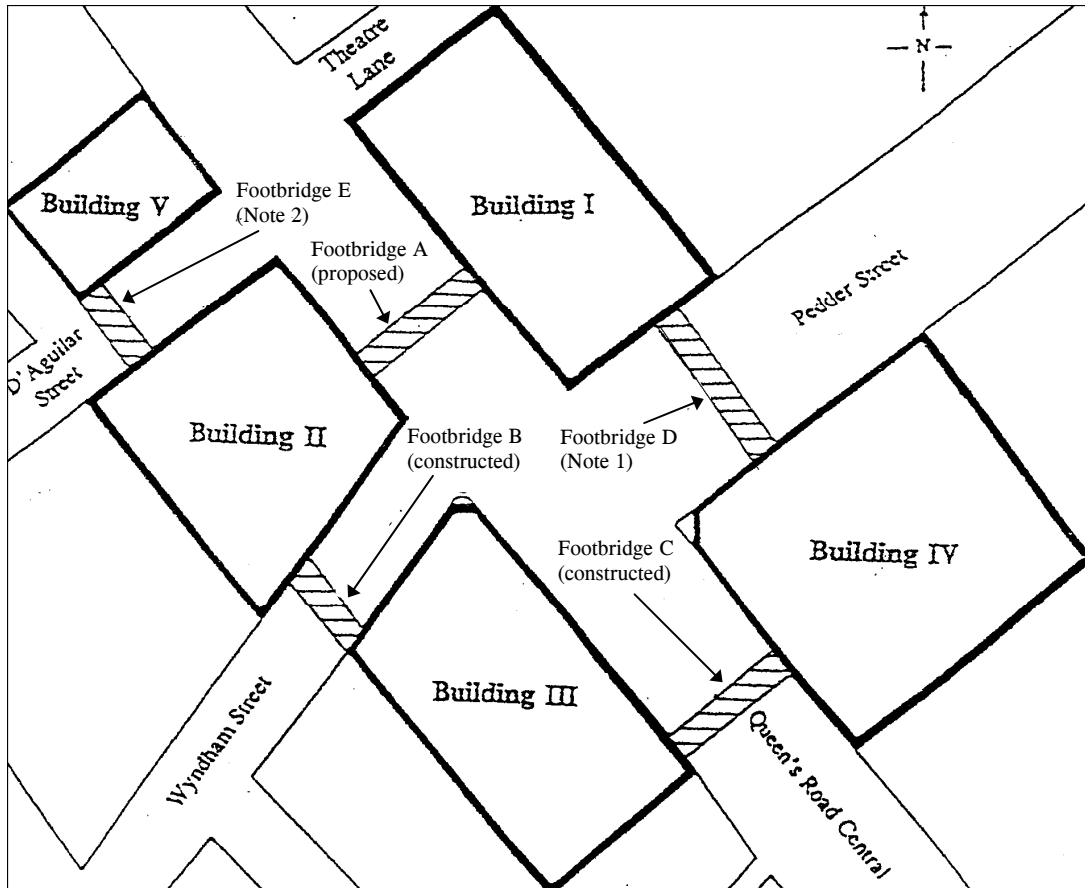
Yours sincerely,



(Freddy Chik)
for Secretary for Security

c.c. Secretary for Financial Services and the Treasury (Fax: 2147 5239)
Director of Audit (Fax: 2583 9063)

**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.*

政府總部
發展局
規劃地政科



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政府總部西翼十七樓

**Planning and Lands Branch
Development Bureau
Government Secretariat**

17/F, West Wing,
Central Government Offices,
2 Tim Mei Avenue, Tamar, Hong Kong

本局檔號 Our Ref. DEVB(PL-L)35/05/206 Pt.5

來函檔號 Your Ref. CB4/PAC/CS(64&65)

電話 Tel.: 3509 8831

傳真 Fax : 2845 3489

24 January 2017

By fax and by email

Mr. Anthony CHU
Clerk, Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex,
1 Legislative Council Road,
Central, Hong Kong

Dear Mr. CHU,

Follow-up to Public Accounts Committee Report No. 39

Small house grants in the New Territories

Thank you for your letter dated 10 January 2017 to the Secretary for Development.

We note the concern of Public Accounts Committee (PAC) about the Small House Policy (the Policy) and thank the PAC for its appreciation of the complexity of the issues involved in the review of the Policy. Any review inevitably involves complicated issues in various aspects such as legal, environment, land use planning and demand on land, all of which would require careful examination.

Given the complicated issues involved and the fact that the work priorities of the Development Bureau are to increase land supply in the short to medium term and to implement and control costs of various public works projects, any review or consideration of suggestions to amend the Policy is not

a priority task in the current term of the Government. It is neither realistic nor practicable to complete the review within this term of Government as far as time is concerned. We will continue to handle the review carefully and judiciously, engaging stakeholders as well as the wider community in dialogue over relevant issues as and when necessary.

Moreover, you may wish to note that the Policy is currently under legal challenge by way of a judicial review, and the Government is thus not in a position to make public comments on issues that may prejudice the Government's handling of related legal proceedings.

Yours sincerely,



(Joey TANG)
for Secretary for Development

c.c.	Secretary for Financial Services and the Treasury	Fax No.: 2147 5239
	Director of Audit	Fax No.: 2583 9063
	Director of Lands	Fax No.: 2868 4707

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電話
TEL NO.: 2516 1800
圖文傳真
FAX NO.: 2880 5141
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**Environmental Protection Department
Environmental Compliance Division
Regional Office (South)**

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環境保護署
環保法規管理科
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華懋交易廣場二樓

(By fax no: 2543 9197)

27 January 2017

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 Public Accounts Committee's letter of 10 January 2017 to the Secretary for the Environment and am authorized to give the coordinated reply on his behalf in consultation with the relevant Government Bureaux and Departments.

The Joint Working Group on Management of Roadside Skips¹ (the "JWG") set up by the Government coordinates efforts of relevant Bureaux and Departments in enhancing the management of roadside skips. The JWG considers that it is important to address the lack of storage sites for skips in tackling the skips problem. In this regard, a new site identified at Tseung Kwan O Area 137 Fill Bank was leased out through a short-term tenancy to the skips operators trade in December 2016, and is expected to be operational by end January 2017 for use by the skips operators. Another site at Siu Lang Shui, Tuen Mun will also be made available via a short-term tenancy and is expected to be ready for storing idling skips in the second quarter of 2017. The JWG will monitor the utilization of these two sites and if necessary, will search for more sites for placing idling skips.

¹ The JWG is led by the Environment Bureau and the Environmental Protection Department and comprises the Development Bureau, the Transport and Housing Bureau, the Hong Kong Police Force, the Lands Department, the Transport Department, the Highways Department, the Food and Environmental Hygiene Department and the Home Affairs Department (on a need basis).

The JWG has also planned that once the new skips storage site at Tseung Kwan O Area 137 has been commissioned, a dedicated term contractor will be engaged to assist the enforcement departments to speed up removal of skips that are found to be posing serious obstruction to traffic or imminent danger to the public. This will further enhance the enforcement efficiency and the deterrent effect. The skips removal term contractor service is expected to be ready for deployment in February 2017 and the enforcement departments will step up accordingly enforcement action against indiscriminate placement of skips on roadside. The Hong Kong Police Force (the “HKPF”) and the Lands Department (the “LandsD”) will also join the coming operations to be organized by District Office, Sai Kung in February 2017.

In parallel, the JWG has been following up with the skips operators trade to promote and facilitate better management of skips operation, such as standardizing the specifications of skips, and promoting good operation practices.

Below are the specific information requested in paragraphs 3(a) to (c) of your letter:

(a) The number of “idling” skips existing on roadside

According to the skips operators trade, there are about 3,500 skips in Hong Kong including about 1,500 skips which are placed in works sites and storage areas while the remaining skips (around 2,000), mostly idle ones, are placed on relatively less busy roads or in public places in remote areas.

(b) Which Government bureau(x)/department(s) will take up the responsibilities for regulating and facilitating skip operations

At present, legislative control for tackling roadside skips found to cause obstruction and illegal occupation of Government land are provided for under the Summary Offences Ordinance (Cap. 228) and the Land (Miscellaneous Provisions) Ordinance (Cap. 28) respectively. The HKPF and the LandsD have been vigilant about the problem of roadside skips and have been mounting enforcement operations from time to time in order to deter malpractice of skips operators.

In 2016 and 2015, 1,441 and 1,230 complaints were received respectively by HKPF. Among these complaints, the scene officers were able to locate roadside skips in 2,171 cases; and HKPF had given advice and/or warnings under the Summary Offences Ordinance (Cap. 228) in 1,793 cases. The skips were removed by the skips operators in over 65% of the cases, usually shortly after receiving the advice and/or warnings. A total of four roadside skips were removed by HKPF and 11 prosecutions undertaken by way of summons. During the same period, LandsD handled 1,098 and 858 complaints respectively (some were against the same skips) in accordance with the Land (Miscellaneous Provisions) Ordinance (Cap. 28). The skips were removed by the skips operators in 99% of the cases, usually within two days of LandsD’s posting of the relevant notices on the skips.

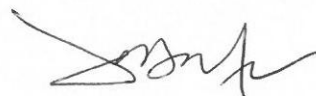
The JWG will review the effectiveness of the measures, including providing skips storage sites and a dedicated contractor for skips removal, twelve months after they have been introduced (i.e. around third quarter of 2018) to examine whether there is need to introduce further measures, such as a new regulatory system or assigning a Department to take up the overall responsibility for regulating skips operation in the longer term.

(c) The progress of implementing short-term safety measures proposed by the Transport Department as stated in PAC Report No. 61

The short-term safety measures mentioned in PAC Report No. 61 related to the Transport Department (the "TD") was about the promotion of the guidelines for Mounting and Placing of Skips (the "Guidelines"). The TD has stepped up promotion. Apart from distributing the Guidelines to the trade and uploading them on its website for the reference of skips operators (http://www.td.gov.hk/filemanager/en/publication/skip_en.pdf), the TD also participated in four seminars organized by the JWG to explain to the trade in detail the importance of planning in advance the delivery, placing and guarding of skips so as not to cause nuisance and safety threats to the public. The TD also reminded the trade of the good practices regarding mounting and placing of skips, such as all exposed faces of skips should be painted bright yellow; and that during the hours of darkness, yellow flashing lights should be attached to each upper corner of skips as stated in the Guidelines. The TD will continue to actively participate in the JWG to formulate strategies and action plans for regulating and facilitating skips operation, and to maintain close liaison with the skips operators.

Separately, arrangements have been made with 1823 so that with effect from 12 March 2014, complaints received by 1823 about skips placed at roadside referred to the LandsD for enforcement (that were classified as not causing serious obstructions) will be copied to TD in parallel. TD will re-examine the cases, and if the skips concerned are found to be causing greater obstruction or imposing higher risk of traffic accidents, the TD will refer the relevant cases to the Police for enforcement actions. According to traffic accidents statistics, the numbers of accidents involving collision with skips in the past four years were very low, ranging from two to four per year (less than 0.03% of all traffic accidents) and all of them were minor traffic accidents with no persons killed or seriously injured.

Yours sincerely,



(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)

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**Transport and
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Government Secretariat

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本局檔號 Our Ref. THB(T)CR 1/60/951/08

來函檔號 Your Ref.

3 February 2017

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 Part 4 of the
Public Accounts Committee Report No. 65, Para. 23-25
New Civil Aviation Department Headquarters**


Further to my letter dated 22 January 2016 and the subsequent updates to the Government Minute issued on 25 May 2016 and to the Annual Progress Report to the Public Accounts Committee issued on 1 November 2016 on the progress of the investigation undertaken by the Transport and Housing Bureau (THB) on the new Civil Aviation Department Headquarters project, I write to provide an update on the investigation which has been completed.

THB's investigation was conducted in strict compliance with the established civil service procedures. The investigation team had examined internal project documents and external communication records at different project stages; the examination was to ensure a fair and comprehensive review from different perspectives, and to establish the facts and identify the causes of the non-compliance incidents as well as the officers who should be held accountable. In the course of THB's

investigation, a law enforcement agency had undertaken a criminal investigation into the matter. At the request of the agency, THB had put its investigation work on hold until the completion of the agency's investigation. The result of THB's investigation is set out at Annex.

With best wishes for the Year of the Rooster!

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Ms Joyce Chan', written over a light grey circular stamp or watermark.

(Ms Joyce CHAN)
for Secretary for Transport and Housing

Encl.

c.c. Secretary for Financial Services and the Treasury
Director of Audit
Director-General of Civil Aviation

**New Civil Aviation Department Headquarters
Updated Progress of Implementing Audit's and PAC's Recommendations**

Para. No.	Audit's/PAC's Recommendations	Progress to date
Part 4 of the PAC Report No. 65, Para. 23-25	The Committee wishes to be informed of further development on the investigation by the Transport and Housing Bureau (THB) on the implementation of the new Civil Aviation Department (CAD) Headquarters project.	THB has completed the investigation. According to the investigation outcome, there is evidence indicating acts of misconduct by a senior directorate officer of CAD. Pursuant to the evidence gathered from the investigation and in accordance with established civil service procedures, THB has taken summary disciplinary action against the officer concerned. In addition, the investigation revealed prima facie evidence indicating alleged acts of misconduct by a retired directorate officer of CAD. As this officer has already retired, the civil service disciplinary mechanism is not applicable. However, THB has issued a letter to the retired officer concerned and also put the letter on the personnel file, clearly expressing THB's stance on the acts of misconduct alleged against the officer. As the follow-up action to PAC's recommendation has been completed, we recommend deleting this item from the next progress report.



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

10 January 2017

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. 63A
Administration of the air traffic control and related services**

I refer to your letter dated 4 January 2017. Following is a reply from the Civil Aviation Department (CAD) to the issues raised therein:

(a) Operation of the new Air Traffic Management System (ATMS) upon its full commissioning

Since its full commissioning on 14 November 2016, the new ATMS of CAD has been operating smoothly over the last two months or so. During the traffic peak of the recent Christmas and New Year season (between 23 December 2016 and 2 January 2017), there was a daily average of 1 142 flight movements at Hong Kong International Airport (HKIA), representing about 1 per cent increase when compared with the average of 1 133 daily flight movements at HKIA over the corresponding period a year earlier. In addition, there was a daily average of 838 overflights, representing an increase of about 13 per cent when compared with a daily average of 739 overflights during the same period a year earlier. The new ATMS (Autotrak III) handled a total of 1 980 flights per day on average, representing an increase of some 6 per cent when compared with 1 872 total flights per day handled over the same period a year earlier and featuring a record number of flights handled during Christmas and New Year period. The flow of traffic was also smooth and orderly.

The temporary occurrence of minor setbacks during the introduction of the new system can be grouped into three main categories, including (1) display issue of aircraft positions on the radar screens of the new ATMS due to the limitations of existing radar technology, which has nothing to do with the design of the new ATMS; (2) two incidents occurred during which the radar screens of the new ATMS were unable to display some of the flight information for 26 seconds and 75 seconds respectively; and (3) some functions of the Electronic Flight Strips (EFS) System installed at the Air Traffic Control (ATC) Tower was temporarily affected.

Concerning (1) limitations of radar technology, it specifically refers to the radar signal interference by external factors and/or moving obstacles or terrain, occasional problems of aircraft transponders etc, affecting the display of aircraft positions on the radar screens. As these phenomena were caused by the limitations of radar technology, they were not peculiar to the new ATMS but were also observed in the ATMSs developed by other manufacturers and in the old ATMS. To overcome the limitations of radar technology, the International Civil Aviation Organization (ICAO) advocates the implementation of the satellite-based “Automatic Dependent Surveillance – Broadcast (ADS-B)” technology in all member states/regions, concurrently with radar technology. CAD has all along been striving to expedite full implementation of ADS-B in the Hong Kong Flight Information Region (HKFIR). In the first phase starting from 14 November 2016, ADS-B was implemented in the southern tips of the HKFIR, where there was no radar coverage. So far, the result was satisfactory. Moving on to the second phase on 8 December 2016, the air traffic control officers (ATCOs) have been able to view the information on flights inside the HKFIR with radar coverage through a separate ADS-B screen next to the radar screen at the same working position. In other words, ATCOs can now obtain relevant flight information simultaneously through radar screens and ADS-B screens. In addition, CAD is going to implement ADS-B in the HKFIR in full by the end of this year.

For (2) the two incidents occurred during which the radar screens of the new ATMS were unable to display some of the flight information, CAD has taken prompt follow-up actions, including tasking the ATMS contractor (Raytheon) to optimise operating procedures and system software. Specifically, the two incidents took place because the Flight Data Processor (FDP) did not process the flight plan association with radar data immediately. Hence, some of the flight information was not displayed on the radar screens. The first incident occurred when the number one FDP (FDP#1) of the Main System encountered a file access anomaly while trying to access certain archived playback data. The system initiated an auto-switchover to the Main System’s number two FDP (FDP#2) as per design. During the auto-switchover, all the radar and flight information was displayed at radar screens in a continuous and seamless manner. After confirming the normal operation of the FDP#1, the technical staff then restarted the FDP#1 in accordance with the established procedures to make it serve as the standby FDP. During this process, the two FDPs started to synchronise flight information. The data synchronisation process took priority and the flight plan association process was expected to take place shortly afterwards, resulting in the momentary flight plan dis-association. To prevent the FDP switchover from conducting playback as an expedient measure, playback sessions will be conducted on the Fallback System to avoid impacting the Main System operation. If a switchover is needed from the FDP#1 to the FDP#2, the technical staff will avoid carrying out the FDP synchronisation process during a high traffic period. In the long run, CAD will prevent the unnecessary auto-switchover of the FDP through optimising system software to strengthen monitoring and management of playback sessions. The second incident was caused by a similar reason. The technical staff concerned retrieved and archived data from the Main System when carrying out system maintenance, failing to follow the recommended procedures promulgated by the department earlier. Likewise, the data retrieving and archiving process took priority and the flight plan association process was expected to take place shortly afterwards. As the flight plan association process was not carried out in time, there was momentary flight plan dis-association. To avoid this from happening again, as an expedient measure, data should not be retrieved and archived from the Main System. The long term solution is identical to that of the first incident. CAD will optimise system software. When the FDPs carry out data synchronisation, the established associations between targets and flight plans would be protected to ensure that flight plan association will not be affected.

The optimised system software, which will prevent the same situation from happening again, is now being tested by CAD and the contractor in accordance with ICAO's safety management process.

With respect to (3) a temporary anomaly with the EFS System, it has been in operation in the ATC Tower since 2012 when the old ATMS was in use. The supplier was Frequentis. Since commissioning of the new ATMS, the EFS System was integrated into the new ATMS as a sub-system. The EFS could have some issues occasionally, no matter when it operated independently in the past or after it was integrated into the new ATMS. CAD and the contractor are examining the root cause of the occurrence and the appropriate follow-up action. For phenomena (2) and (3), the Transport and Housing Bureau (THB) has sought expert advice from the overseas independent consultant, the United Kingdom-based National Air Traffic Services (NATS).

CAD has been adhering to the principle of openness in proactively disclosing occurrences in relation to the operation of the new ATMS. We have, in two information papers dated 28 November 2016 and 13 December 2016 (please see [Annex A](#)), informed the Legislative Council Panel on Economic Development (ED Panel) about the operation of the new ATMS from its full commissioning up till 29 November 2016. Letters and public statements in support of the launching of the new ATMS by CAD, made by the Hong Kong Air Traffic Control Association (HKATCA), CAD Electronic Engineers' Branch of Hong Kong Chinese Civil Servants' Association, the Board of Airline Representatives Hong Kong, which represents more than 70 airlines, and two local airlines are appended to the document. CAD has also issued press releases proactively to make known to the public the occurrences which took place after 29 November. Relevant press releases are at [Annex B](#).

NATS, appointed by THB, has already confirmed that the new ATMS engineering was safe, stable and reliable. According to NATS, given the complexity of an ATMS, even with all reasonable efforts and endeavors, there could still be possibilities of setbacks during the introduction of a new system. It needs some time to optimise its performance and suit the local operating environment. The ATMS expert panel set up by CAD (described below) agreed that the optimisation process is inevitable and understandable. The multiple layers of fallback systems have not been activated since the new ATMS was fully commissioned. Any ATMS, regardless of the manufacturer, would encounter these kinds of occurrences and there have been similar experiences overseas. The most important point is that CAD has established an effective mechanism to cope with different situations. Concerning this point, the expert panel unanimously considered that CAD's mechanism for responding to different situations during the teething period was on a par with international practice.

(b) Peak air traffic preparedness solution

The daily flight movements at HKIA and the number of overflights, which do not take off or land at HKIA, during the last Christmas and New Year holidays were both higher than the corresponding period a year earlier. As in the past, CAD has deployed additional staff and operated the new ATMS to maintain an orderly and expeditious flow of air traffic during the peak season. The total number of flights handled during this Christmas and New Year period also set a record level. To cope with the peak air traffic during the coming Lunar New Year, CAD will deploy additional staff on one hand, and on the other, CAD will implement when necessary the "air traffic flow management measures" (flow control) as in previous years to reduce the number of overflights entering the HKFIR, so as to ensure safe and orderly air traffic operation within its

***Note by Clerk, PAC:** *Please refer to LC Paper No. CB(4)154/16-17(04) on LegCo Website for Annex A, and news.gov.hk for Annex B.*

airspace. Implementation of flow control is a common practice adopted worldwide for ATC to manage air traffic and is not related to the performance of the new ATMS. Please refer to a press release at [Annex C](#) for details.

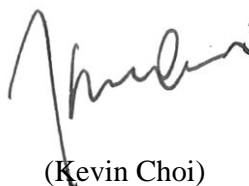
(c) First meeting of the ATMS expert panel

CAD set up a five-member expert panel which includes Professor Man Hau-Chung, Dean of Engineering of the Hong Kong Polytechnic University; Mr Albert Lam, former Director-General of Civil Aviation; Mr Warren Chim, Deputy Chairman of the Hong Kong Institution of Engineers' Aircraft Division; Mr Marc Houalla, the President of the National School of Civil Aviation in France; and Mr Huah Kong Beng, the Chairman of ICAO Asia & Pacific Regions Air Traffic Management sub-group. Within a year after the full commissioning of the new ATMS, the expert panel (appointed till 30 November 2017) will provide objective expert advice to the DGCA on teething issues arising from the commissioning of the new ATMS and the necessary optimisation work; and to share with CAD international experience and best practices in relation to the long-term optimisation of new ATMS.

The expert panel held its first meeting on 16 December 2016. CAD briefed expert panel on the design and functionality of the new ATMS, preparation for the transition of the system, operations since its commissioning, issues encountered and the solutions. The expert panel has set out the work plan in the coming year and planned to meet with different stakeholders to gauge their views on the optimisation process of the new ATMS. Please refer to [Annex D](#) for a press release and a gist of remarks made by the DGCA (Chinese only) at a media session after the first meeting. The expert panel plans to hold the second meeting and to meet with the ATCOs and Electronic Engineers to gauge their views within this month. It is expected that the expert panel will make a preliminary report in the coming March or April.

ED Panel discussed matters on the new ATMS on 13 December 2016. To help members better understand the operation of the system, CAD is organising a visit to CAD for the ED Panel members tentatively in the afternoon of 19 January. Members of the Public Accounts Committee are cordially invited to join the visit. We look forward to receiving your favourable reply.

Yours sincerely,



(Kevin Choi)
for Director-General of Civil Aviation

c.c. Hon Abraham SHEK Lai-him, GBS, JP (Chairman)
Secretary for Transport and Housing (fax: 2524 9397)
Secretary for Financial Services and the Treasury (fax : 2147 5239)
Director of Audit (fax : 2583 9063)

***Note by Clerk, PAC: Please refer to news.gov.hk for Annexes C and D.**

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

Mr Eddie NG	Secretary for Education
Mr Brian LO	Deputy Secretary for Education (1)
Dr Richard T ARMOUR	Secretary-General University Grants Committee
Miss Winnie WONG	Deputy Secretary-General (1) University Grants Committee
Mrs Alice SHAM	Assistant Secretary-General (Research) ¹ University Grants Committee
Ms Sarah WOO	Assistant Secretary-General (Finance) University Grants Committee
Mr David LEUNG	Deputy Secretary-General (2) University Grants Committee

**Public Hearing of the Public Accounts Committee of the
Legislative Council on 12 December 2016**

**Director of Audit's Report No. 67
Chapter 2 – Funding of Universities by University Grants Committee**

Speaking Notes for the Secretary for Education

- First of all, I would like to thank the Audit Commission (Audit) for its observations and recommendations on the work of the University Grants Committee (UGC).
- Overall speaking, the Government and the UGC generally accept the recommendations of the Audit Commission. The UGC Secretariat will take appropriate measures to implement the Audit's recommendations already accepted in consultation with the UGC and the bodies under its aegis.
- In a moment, the Secretary-General to the UGC will respond specifically to the Audit's recommendations in his speech. Before that, I would like to give my observations and responses in respect of several policy-related issues.

Role of the UGC

- Established in 1965, the UGC seeks to promote understanding among the institutions, the Government and the community at large. It mediates interests pertaining to higher education between institutions and the Government. On the one hand, the UGC safeguards the academic freedom and institutional autonomy of institutions, while on the other, it ensures value for public money.
- The main functions of the UGC are to allocate funding to its funded institutions, and to offer impartial expert advice to the Government on the strategic development and resource requirements of higher education in Hong Kong. Currently, the UGC has 21 members, among them 60% are academics and the remaining are eminent community leaders. The non-local academics serving on the UGC bring with them an international perspective and offer independent views that enable us to keep abreast of the global trends and sustain the competitive edge of Hong Kong's higher education sector in the world. As all UGC members are appointed in their personal

capacity, their independence is beyond doubt. While the Secretariat of the UGC, as a government department, comes under the policy responsibility of the Secretary for Education, the Secretary-General and Secretariat staff are accountable to the UGC for the operation of the Secretariat, which is independent of the Education Bureau. The Secretary-General is the Controlling Officer of Head 190 University Grants Committee and is directly answerable for the expenditure under this Head.

- On the whole, we consider that the independent structure, organisation and operational arrangements of the UGC can basically serve the needs and long-term interest of our higher education sector, and contribute to institutional autonomy. This is also conducive to the development of UGC-funded universities. We expect that the UGC and its Secretariat should, building on the existing foundation, expeditiously implement the Audit's recommendations already accepted, with a view to continuously enhancing the operation of the UGC.

Internationalisation of the universities

- Regarding the internationalisation of the universities, we agree with the Audit's recommendations that the universities should be further encouraged to continue their efforts to take in more non-local students, in particular those from places other than the Mainland, and promote diversity on campus.
- With a view to attracting outstanding local and non-local students to advance their studies in Hong Kong, in 2008 the Government established the \$1 billion HKSAR Government Scholarship Fund (GSF) to recognise outstanding local and non-local students. Since the 2012/13 academic year, up to ten targeted scholarships under the GSF have also been offered each year to first-year non-local students from ASEAN countries, India and Korea who are enrolled in publicly-funded full-time degree programmes in Hong Kong. Moreover, starting from the 2016/17 academic year, up to ten additional scholarships titled "Belt and Road Scholarship (Indonesia)" are made available under the GSF for first-year non-local students from Indonesia to pursue publicly-funded full-time degree programmes in Hong Kong. These are effective measures to attract more outstanding non-local students from different countries to Hong Kong to pursue university programmes.

Campus development

- We also concur with the Audit's recommendations on supporting university campus development. However, it must be pointed out that in view of the keen competition for the Capital Works Reserve Fund in recent years, the Government inevitably has to prioritise the public works projects of different policy areas. The EDB and the UGC will continue to seek government funding for campus development. Meanwhile, universities are encouraged to explore other sources of funding, such as private donations, to finance the development of student hostels.

University tuition fee review

- Regarding tuition fee, the EDB made it clear to the Legislative Council and the public in early 2016 that the indicative tuition fee level will be maintained at the existing level and will not be adjusted during the 2016/17 to 2018/19 triennium.
- Nevertheless, we agree that there is a need to conduct a comprehensive review of the current tuition fee policy after maintaining the status quo for almost two decades, so that more updated information and parameters would be used for assessing the appropriateness of the current policy. In this connection, we invited the UGC in June 2015 to launch a review of the tuition fee policies in other jurisdictions and propose options to the EDB with due regard to the situation in Hong Kong. The consultancy report endorsed by the UGC was submitted to the EDB in late September 2016. The EDB is now carefully studying the findings of the report and will decide the way forward for the 2019/20 academic year and beyond in due course.

Summing Up

- I now give the turn to the Secretary-General to the UGC, who will respond to the Audit's recommendations regarding the actual operation of the UGC. After that, we will take questions from the Public Accounts Committee of this Council and elaborate further. Thank you, Chairman.

**Education Bureau
December 2016**

Director of Audit's Report No.67
Chapter 2 : Funding of universities by University Grants Committee

Public Hearing of the Public Accounts Committee
(12 December 2016)

Opening Remarks by the Secretary-General,
University Grants Committee

Chairman and members of the Committee,

First of all, I would like to thank the Director of Audit for the observations and recommendations on the conduct of activities by the UGC. We particularly welcome the largely constructive spirit. And we assure the Commission and Members of our whole whole-hearted co-operation in responding. We broadly accept the Audit recommendations and will, in consultation with the UGC, take appropriate follow-up actions to implement them for continuous improvement in the various areas of the work of the UGC. I would also like to thank the Chairman for allowing me to respond to the Report. Before replying to questions from Honourable Members, I would like to make some brief remarks regarding a number of Audit recommendations.

Progress in campus and student hostel development

2. The Audit Commission has commented that the slow progress in approving new capital works projects might affect the operation and development of the universities. The UGC is in full agreement with this

view. Both UGC and the universities consider that the provision of hostel places in particular for both local and non-local students is a key factor in promoting internationalisation and campus harmony. We have been working very hard to pursue funding from the Government, and will continue with this endeavour.

Delay in finalisation of project final accounts

3. The Audit has raised the issue that there have been delays in finalisation of final accounts for works projects. Please rest assured that the UGC Secretariat is working hard to ascertain the reasons for the delay. We fully agree that the finalisation of project accounts should be expedited. Up till the end of October 2016, we have further closed ten accounts with 94 outstanding. The UGC Secretariat will take appropriate measures in consultation with Architectural Services Department, UGC's technical advisor, and the universities with a view to finalising the project accounts as soon as practicable.

Internationalisation of the universities

4. On internationalisation of universities, Audit has recommended UGC further encourage the universities to continue their efforts to attract more non-local students, in particular those other than Mainland students. Both UGC and the sector fully support this endeavour. I would like to stress that internationalisation may come in many forms, including international strategies, curriculum development, international networks,

non-local student recruitment and integration, international faculty, etc. UGC has all along been encouraging universities to internationalise in ways that fit their own institutional context. In particular, with the good results achieved in the setting up of a Hong Kong Pavilion in international education conferences, UGC will continue to provide funding to universities in the 2016-19 triennium for student recruitment and raising awareness of Hong Kong universities. The UGC Secretariat will continue to invite UGC to consider ways to further encourage universities in their efforts to promote diversity on campus.

Meeting Expenses

5. Following the publication of the Audit Report, there has been extensive media coverage on the meeting expenses of the UGC. In particular, the UGC is criticised for providing “five-star” accommodation and business class return tickets for our non-local members. I wish to point out that non-local members of the UGC are international university leaders of global standing. There are immense benefits in drawing the best academic talents from around the world to serve Hong Kong. To continue to attract top university leaders to serve on our committees on a voluntary basis, the UGC believe that the standard of passage arrangements and hotel accommodation offered should be commensurate with their standing and broadly similar to other international bodies competing for their time, and should not deter candidates from accepting an offer of appointment. On the procurement of hotel accommodation, the UGC Secretariat has followed the relevant government regulations to

invite suitable hotels to submit quotations for cost comparison. The hotels chosen for quotations are very close to our meeting venue. In principle, the lowest quotation would be accepted as the appointed hotel for non-local members. On the issue of passage arrangements, the provision of business class return tickets to non-local members is broadly similar to the passage arrangement provided to senior public officers who travel on duty outside Hong Kong. We consider such a provision to be justified given the status and expectation of our non-local members.

Concluding remarks

6. In closing, I would like to reiterate that UGC, as always, promotes self-critical practices among our universities and within the Committee and Secretariat. This is an important principle of our own practice and Quality Assurance audits. The UGC Secretariat will make substantial effort to follow up with the Audit recommendations with a view to better discharging its roles for the good of Hong Kong's higher education sector. Chairman, my colleagues and I are happy to address Members' questions in further detail. We will also fully co-operate with the Public Accounts Committee in its work. Thank you, Chairman.

(around 780 words)

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23 December 2016

Mr Anthony Chu
Clerk
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. 67

Funding of universities by University Grants Committee ("UGC")

I refer to your letter dated 13 December 2016 to the Secretary-General, UGC, requesting for supplementary information on a number of issues discussed at the public hearing held on 12 December 2016. The requested information is now set out at the **Annex** for reference by the Public Accounts Committee. As requested, my colleagues will send you soft copies of the information by email.

Should you need further clarifications on the above, please feel free to contact Miss Winnie Wong, Deputy Secretary-General (1) on 2844 9914 or Mr David Leung, Deputy Secretary-General (2) on 2844 9942.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Armour', enclosed within a circular scribble.

(Dr. Richard T ARMOUR)
Secretary-General

c.c. 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)

(a) Recurrent grants to UGC-funded universities and salary adjustment mechanism of staff in universities

2014/15 recurrent grants to UGC-funded universities

The 2014/15 recurrent grants for the universities (\$14,321 million) were accepted by the Finance Committee of the Legislative Council in January 2012, as part of our recommendation on recurrent funding for the universities in the 2012/13 to 2014/15 triennium. The **accepted** amounts were at 2011 price level. Therefore, they were different from the **actual** 2014/15 recurrent grants shown in Table 3 (\$16,072 million) which had incorporated, amongst other things, the adjustments of the relevant portion of the recurrent grants based on the civil service pay adjustments for the period 2012 to 2015 (effective rate of about 14%).

Salary adjustment mechanism and determination of salary scale of staff in universities

Universities have their own established mechanisms in determining the remuneration packages and salary adjustments of their staff, and are accountable for their decisions in this regard. Generally speaking, the remuneration of staff is determined with reference to factors such as available market information, pay information of Hong Kong's public sector and the international academic sector, qualification and experience of the staff, civil service pay scale, and internal salary relativity, etc. Benchmarking review of the remuneration packages with local and international practices is conducted by some universities with a view to ensuring their market competitiveness.

As regards the salary adjustment mechanism, based on information provided by the UGC-funded universities, some universities will make reference to the civil service pay adjustments as well as the available market information in considering the salary adjustment of staff in relevant years, though the actual salary adjustment for individual staff is based on the performance assessment of the staff.

The UGC does not seek to control for funding purposes actual expenditure on salaries and benefits in the universities since the delinking of institutional salaries from the civil service salary scales in 2003. That notwithstanding, at the time of allocation of the supplementary grants arising from the civil service pay adjustments, the universities are reminded that such additional subventions are meant to allow room for salary adjustment for their staff.

(b) Factors considered in setting the allocation of knowledge transfer funding for UGC-funded institutions and details of the change in the way knowledge transfer is to be provided to the universities for the next triennium (2020-2023) (paragraph 2.15(b) of the Audit Report refers)

Since the 2009/10 academic year, UGC has introduced an additional stream of recurrent earmarked funding for universities to build up their capacity and broaden their endeavours in knowledge transfer (KT). In the 2016-19 triennium, KT funding of \$62.5 million per year is available for allocation to UGC-funded universities. The Research Group under UGC decided in April 2016 to retain the funding mechanism in use in the 2012-15 triennium, i.e. the metrics-based formula, for the 2016-19 triennium. The metrics-based formula for allocation to each UGC-funded university in the 2016-19 triennium is as follows –

$$\text{Share of Funding} = \$62.5 \text{ million} \times \frac{T_a + 4R_a}{\sum(T_n + 4R_n)}$$

T: Teaching element of the UGC Block Grant in the funding year

R: The sum of the research element of the UGC Block Grant in the funding year and the total funding received from the Research Grants Council in the preceding funding year








a: The relevant amount for the university concerned

n: Sum of the relevant amount for all the eight UGC-funded universities

Noting that the KT culture has already been fully embedded in universities' strategies and operations, the Research Group agreed in September 2016 to consider changing the way KT funding was provided to universities for the next 2019-22 triennium, e.g. by integrating the earmarked KT funding into the Block Grant to universities. The universities will be informed well in advance should there be any major changes to the KT funding arrangements. The Secretariat will review the earmarked KT funding allocation in due course, and Audit's views and recommendation will be taken into account in the review.

(c) Enrollment rules – Details of items 4 and 5 in Table 12 in paragraph 2.26

The University codes are provided to PAC on a **restricted basis** and **should not be disclosed to the public** –

University A : 
University B : 
University C : 
University D : 
University E : 
University F : 
University G : 

On the issue of over-enrolment of “Enrolment of non-local students should not exceed 4% in Chinese medicine programmes” (Item 4 of Table 12 in the Audit Report); Members may wish to note that for University D, the enrolment of 20.1% above the limit in the 2012-15 triennium means that on average the university admitted 6.0 students above limit out of 30.0 per year (rather than 36.1 students which was the average actual/total enrolment per year in that triennium). Similarly, for the same university, the enrolment of 9.6% above the limit in the 2009-12 triennium means that on average the university had admitted 2.9 students above the limit out of 30.0 per year (rather than 14.3 students which was the average actual/total enrolment per year in that triennium). The absolute number of intake/enrolment above limit was relatively small, while on the other hand, the corresponding approved student number target (limit) for that particular programme was also small and hence the percentage seems high.

On the issue of over-enrolment of “No over-enrolment in Chinese medicine programmes” (Item 5 of Table 12 in the Audit Report), Members may wish to note that for University D, the over-enrolment of 5.7% in the 2012-15 triennium means that on average 1.7 students were admitted above limit out of 30.0 per year (rather than 10.3 students which was the average actual/total enrolment per year in that triennium). Similarly, for University F, the over-enrolment of 10.2% in the same triennium means that on average 2.6 students were admitted above limit out of 25.0 per year (rather than 15.3 students which was the average actual/total enrolment per year in that triennium). The absolute number of intake/enrolment above the limit was relatively small, while on the other hand, the corresponding approved student number target for that particular programme was also small and hence the percentage might seem high. Also, for University F, the over-enrolment of 1.9% in the 2009-12 triennium means that on average 0.5 student was admitted above limit out of 25.0 per year (rather than 2.3 students which was the average actual/total enrolment per year in that triennium).

(d) Measures taken / to be taken by UGC and/or EDB in addressing cases of under-enrollment (Table 12 in paragraphs 2.26 and 2.30)

With reference to Table 12, paragraph 2.26 of the Audit Report, action has already been set out in section 3.12 of the NoP. UGC has adhered to the laid-down procedures i.e. regular monitoring of actual enrolments, for dealing with cases of non-compliance with the enrolment rules. For example, the UGC considered that there was serious under-enrolment of the then HKIED in 2007/08 academic year and action was taken to claw back funding.

In December 2014, the EDB expressed to the UGC its concern on deviations from the approved student number targets in various streams of teacher education programme. Accordingly, the EDB requested the UGC to consider treating various streams of teacher education programmes as distinct manpower-planned programmes for the purpose of applying UGC’s enrolment rules, and therefore the relevant student number target of each stream needs to be met (hereinafter referred to as “sub-cap proposal”). Not all of these were within the control of the institution

concerned since for certain short or part-time courses, student numbers depended on schools releasing serving teachers.

Upon finalisation of the implementation details of the “sub-cap proposal” in consultation with EDB and the teacher education universities (TEUs), we wrote to TEUs requesting them to take into account the Government’s recommendation that the various streams of teacher education programmes be treated as distinct manpower-planned programmes for the purpose of applying the sub-caps on enrolment for manpower-planned programmes. We informed the TEUs, vide a letter of 20 October 2016, of the implementation details taking into account the views expressed by the TEUs, including the exemption from the sub-cap proposal for programmes with a small intake.

(e) Statistics on non-local graduates of UGC-funded undergraduate programmes who have remained to work / stay in Hong Kong after graduating

At present, the Immigration Department administers the “Immigration Arrangements for Non-local Graduates (IANG)”, which allows non-local students who have obtained an undergraduate or higher qualification in a full-time and locally-accredited local programme in Hong Kong, including UGC-funded undergraduate programmes, to apply to stay/return and work in Hong Kong. Both non-local fresh graduates (i.e. non-local graduates who submit applications to the ImmD within six months after graduation) and returning non-local graduates (i.e. non-local graduates who submit applications to the ImmD beyond six months after graduation) are eligible under the scheme.

In 2015/16 (as at June 2016), 2 685 applicants with undergraduate qualifications were approved. The breakdown statistics on successful applicants who are non-local graduates of UGC-funded undergraduate programmes are not available.

(f) Measures taken / to be taken by UGC / EDB in addressing the shortfall in student hostel places

Both the Education Bureau and UGC recognise that hostel experience is an integral part of higher education, and is committed to supporting the development of publicly-funded student hostels in accordance with

well-established policies and calculation criteria. At present, around 29 200 publicly-funded hostel places are available to the UGC-funded universities, of which some 6 470 were completed in the past five years, while another 676 places are currently under construction. As at 2015/16, there was a shortfall of around 8 660 publicly-funded student hostel places. To cope with the surging requirements, the UGC and its funded universities have been working closely with the Government in the planning work for new hostel projects. Eight hostel projects are currently at various stages of planning (i.e. Category B- projects in Government's Capital Works Resource Allocation Exercise (CWRAE)) by UGC-funded universities, which are expected to deliver around 8 450 publicly-funded hostel places. In addition, UGC has supported two capital project proposals of universities to provide 930 additional hostel places.

Having regard to the importance of hostel life to students and the promotion of internationalisation, the UGC has since 2013 accorded higher priority to hostel projects than academic building projects when pursuing Capital Works Reserve Fund. In the past few years, the UGC has also repeatedly appealed to the Government at various levels for funding support to the hostel projects. On the other hand, universities have been advised to consider alternative ways in provision of student hostels (e.g. finding other funding sources) apart from modifying and / or reprioritising their projects under planning with a view to enhancing the chance in obtaining funding from the Government for more hostel places.

Looking ahead, UGC will continue to work closely with EDB and the UGC-funded universities on funding proposals in Government's CWRAE.

(g) Impact of shortage of student hostel places on non-local students

Both the UGC and the universities consider that the provision of hostel places for both local and non-local students according to the established policy is a key factor in promoting internationalisation. If a hostel place is not provided to non-local students, no matter whether they are Mainland or non-Mainland students, it will inevitably have an impact on their willingness to study in Hong Kong as they will have to find their own accommodation outside campus during their study. In Hong Kong in particular, this is not easy. Moreover, we understand that hostel life is

very important to many non-local as well as local students as it is an essential part of higher education – providing them with an environment conducive to learning, and allowing greater social interaction that enriches personal development as well as the learning experience generally. Such learning experiences cannot be replicated easily in rented accommodation outside campus. That said, it must also be noted that shortage of hostel places is not the only determining factor when non-local students consider their study destinations. Many other factors are taken into account.

(h) Reasons for the delay in submission of project final accounts

With the concerted efforts of universities, Architectural Services Department (ArchSD) and UGC Secretariat, the latest progress of finalisation of final accounts (as at 23 December 2016) is as follows:

	Major Capital Works Projects	AA&I Projects
(i) Total number of projects with finalisation of final accounts overdue as at 30 June 2016	36	98
(ii) Total number of projects with final accounts finalised since 1 July 2016	9	49
(iii) Total number of projects pending finalisation of final accounts (i.e. (i)-(ii))	27	49

The UGC Secretariat continues to review the remaining overdue project accounts and has identified the following reasons for the delay in the submission of the final accounts:

1. Missing information / payment records on the project accounts, in particular those projects which were completed some considerable time ago. In some cases, the universities advised that the file records could not be found and some of the computer records showing the relevant expenditures could no longer be retrieved due to change in accounting/computer systems over the years;
2. Missing supporting information / documents to justify the final expenditures incurred. In the process of vetting the final expenditures of a project, universities might be required by ArchSD, UGC’s technical adviser, to provide justifications and supporting documents to substantiate some of the expenditures incurred, in particular those

involving contractual claims and variations or provisions above the normal requirements. Nevertheless, due to movement of staff in charge of the projects in either the consultancy firms or the universities, some of the crucial information may no longer be available. As a result, longer time was required for the universities and the ArchSD to work on alternative means to determine the supported level of expenditures;

3. Late settlement of final accounts between the universities and the works contractors. In some cases, the universities may have genuine difficulties in settling the final accounts with the works contractors (e.g. due to liquidation of the contractors and length of the liquidation process which may take years to settle; and
4. Limited staff resources tasked with the final account submissions, particularly during the time when the universities (and the UGC Secretariat) were heavily engaged in other tasks with higher priorities (e.g. the implementation of many new “3+3+4” capital projects which was planned since 2005 to cater for the additional academic space requirements for the new academic structure starting from 2012/13).

(i) Delayed submission of project final accounts by the universities

As stated in the reply to question (h) above, the delay in submission of final accounts was due to various reasons. Based on the information provided by universities, there is no clear evidence showing that universities have intentionally delayed the submission of project final accounts beyond the time limit specified in the UGC Notes on Procedures unreasonably. In vetting the final account submissions, the UGC Secretariat consults the ArchSD, UGC’s technical adviser, who will advise on the supported level of the final project expenditures and other technical matters as appropriate. If the UGC Secretariat together with ArchSD consider that a university has intentionally delayed the submission of project final account beyond the specified time limit in a particular case, we would consider consulting the FSTB whether interests should be charged on a case-by-case basis as appropriate.

(j) Measures taken by UGC in expediting the submission of final accounts of capital works projects and AA&I projects by the universities

In order to expedite the finalisation of project accounts, UGC Secretariat has taken the following measures since 2010:

1. Devising new procedural work flow and time frame in consultation with the ArchSD to streamline the processing of final account submissions;
2. Conducting meetings / briefings with the universities concerned and ArchSD with a view to resolving the unsettled final accounts and expedite the vetting process;
3. Devising alternative means / measures in consultation with universities and ArchSD to tackle problematic cases (e.g. to accept universities' undertakings signed at vice-President level in lieu of lost payment records, provided such undertakings are supported by relevant evidences / information as agreed by the ArchSD); and
4. Urging the universities concerned to take prompt actions to expedite the submission of final accounts and supporting documents for processing by ArchSD and UGC Secretariat. Letters have been issued to the Director of Estates or higher level officers (up to the Presidents) of the universities in 2010, 2012, 2013, 2014 and 2016 respectively. In addition to the letters to the Presidents issued by the Secretary General of UGC recently, the Chairman and Secretary General of UGC personally visited each President of eight UGC-funded universities and sought personal intervention to resolve the problem in the past few years.



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

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23 December 2016

Clerk
Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong
(Attn: Mr Anthony Chu)

Dear Mr Chu,

**Legislative Council
Public Accounts Committee**

**Consideration of Chapter 2 of the Director of Audit's Report No. 67
Funding of universities by the University Grants Committee**

I refer to your letter of 13 December 2016 to the Secretary for Education. The requested information is now set out at Annex for reference by the Public Accounts Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Sharon Ko', written over a faint circular stamp.

(Sharon Ko)

for Secretary for Education

cc

Secretary-General, University Grants Committee
Secretary for Financial Services and the Treasury (Attn: Mr Raistlin Lau)
Director of Audit

**Legislative Council
Public Accounts Committee (PAC)**

Supplementary information provided by the Secretary for Education in response to the letter from the Clerk to the PAC dated 13 December 2016

1. Tuition fees payable by non-local students of UGC-funded undergraduate programmes and the corresponding cost recovery rates, and the factors taken into account when setting the levels of tuition fees

In 2003, the Government accepted the University Grants Committee (UGC)'s recommendation that, as a general rule, UGC-funded institutions should charge non-local students of UGC-funded undergraduate programmes at a level which is at least sufficient to recover all additional direct costs, and that the tuition fees should in no circumstances be lower than the fees applicable to local students (i.e. \$42,100 per annum). Institutions were supportive of the initiative, and agreed that the tuition fees for non-local students should be at least \$60,000 per annum. While the tuition fee for local students has been maintained at \$42,100 per annum since 1997/98, institutions have been increasing the tuition fees payable by non-local students over the years. In 2016/17, the tuition fees payable by non-local students of UGC-funded undergraduate programmes range from \$110,000 to \$146,000 per annum.

On the conditions that all non-local students of UGC-funded undergraduate programmes are admitted through over-enrolment and the tuition fees payable by them are at least sufficient to recover all additional direct costs, institutions enjoy the autonomy in setting the tuition fee levels as they see fit, having regard to their own circumstances. Neither the Government nor UGC prescribe a target cost recovery rate.

2. Tuition fees payable by non-local students of UGC-funded postgraduate programmes

At present, there are two types of UGC-funded postgraduate programmes, namely taught postgraduate (TPg) programmes and research postgraduate (RPg) programmes.

Similar to non-local students of UGC-funded undergraduate programmes, non-local students of UGC-funded TPg programmes have to be admitted

through over-enrolment and they are required to pay tuition fees at a level which is at least sufficient to recover all additional direct costs, and that the tuition fees should in no circumstances be lower than the fees applicable to local students (i.e. \$42,100 per annum). In the 2016/17 academic year, the tuition fees payable by non-local students of UGC-funded TPg programmes range from \$110,000 to \$146,000 per annum.

As regards RPg students, it should be reckoned that, as a matter of fact, they play an important role in the higher education sector. Not only do they participate directly in a large number of research activities, but they also take part in the teaching activities of institutions (such as acting as teaching assistants, laboratory administrators, etc.) as well as serve as a bridge between the undergraduates and the teaching staff, thereby contributing to the teaching and learning as well as knowledge transfer in institutions.

Given the above, and with a view to boosting the research capability in Hong Kong through attracting high quality talents from around the world, UGC-funded universities currently admit RPg students on a merit basis and charge them a uniform tuition fee of \$42,100 per student per year¹, taking into account the students' academic results and research capability, regardless of their place of origin. This practice helps ensure that the best candidates irrespective of place of origin are engaged to boost the level of research and contribute to the teaching and learning as well as knowledge transfer work in institutions, thereby safeguarding the effectiveness of public spending.

It is noteworthy that admission of outstanding research talents, regardless of their countries of residence, to RPg programmes on a merit basis by the UGC-funded universities is in line with the common practice of the international academic community.

In the 2015/16 academic year, the number of local applications for UGC-funded RPg programmes was 1 868, which was submitted by 934 local applicants (estimated number)². 535 of these local applicants were eventually admitted, which accounted for 57.3% of the estimated number of local applicants or 28.6% of the number of local applications. As regards

¹ That said, paragraph 3.11 of the UGC Notes on Procedure provide that, subject to prior notification to the UGC and in case institutions choose to over-enrol RPg students beyond the 40% cap, the additional full direct costs incurred (defined as all direct marginal costs incurred arising from the over-enrolment, including studentships, and additional costs for student supervision, cost of space provided *etc*) should be met from non-UGC/RGC funds, including higher tuition fees payable by the over-enrolled students.

² UGC-funded universities estimate that, on average, each local applicant would submit two applications for admission to UGC-funded RPg programmes.

the estimated remaining 42.7% of local applicants, they included those who eventually declined admission offers from UGC-funded universities in order to pursue other opportunities, as well as those who were not given offers having regard to their academic credentials. In contrast, the number of applications for UGC-funded RPg programmes by non-local students was 16 900 in the 2015/16 academic year. The number of non-local intakes in the same year was 1 853, accounting for 11% of the non-local applications³.

3. Statistics on non-local graduates of UGC-funded undergraduate programmes who have remained to work/stay in Hong Kong after graduating

At present, the Immigration Department administers the “Immigration Arrangements for Non-local Graduates (IANG)”, which allows non-local students who have obtained an undergraduate or higher qualification in a full-time and locally-accredited local programme in Hong Kong, including UGC-funded undergraduate programmes, to apply to stay/return and work in Hong Kong. Both non-local fresh graduates (i.e. non-local graduates who submit applications to the ImmD within six months after graduation) and returning non-local graduates (i.e. non-local graduates who submit applications to the ImmD beyond six months after graduation) are eligible under the scheme.

In 2015/16 (as at June 2016), 2 685 applicants with undergraduate qualifications were approved. The breakdown statistics on successful applicants who are non-local graduates of UGC-funded undergraduate programmes are not available.

4. Measures taken by the Education Bureau in addressing cases of under-enrolment by UGC-funded universities

As a matter of principle and in an effort to protect institutional autonomy, the Education Bureau (EDB) does not monitor the day-to-day operation of the UGC-funded universities. Instead, EDB relies on UGC to act as an intermediary with the eight UGC-funded universities. UGC plays the dual role of safeguarding academic freedom and institutional autonomy, while ensuring value for money for taxpayers. To this end, it stipulates

³ The number of applications submitted by non-local applicants considerably varies, and hence UGC-funded universities are unable to estimate the number of non-local applicants on the basis of the number of non-local applications received.

appropriate rules and conditions of grants, including rules on enrolment, for compliance by the UGC-funded universities, through its Notes on Procedure (NoP), its Allocation Letters to the universities, as well as any other suitable instruments.

While responsibility to ensure universities' compliance with enrolment rules rests with UGC, EDB has from time to time requested UGC Secretariat to provide relevant information about enrolment, and has provided advice / taken follow-up actions as appropriate in response to such information. Examples of such matters are set out as follows:

Enrolment of local and non-local students

As stated in paragraph 2.32 of Chapter 2 of the Director of Audit's Report No. 67, EDB had taken note that, prior to 2016/17, the universities might enroll non-local students to their UGC-funded sub-degree, undergraduate and taught postgraduate programmes up to 4% within and 16% outside the approved UGC-funded student numbers by study level. In other words, UGC-funded places were primarily, but not solely, used to admit local students. For example, in 2015/16, 14 848 local students were admitted to UGC-funded first-year first-degree places, against an approved student number target of 15 000. To address the community's concerns that non-local students were taking up precious public resources at the expense of local students, EDB sought the Chief Executive-in-Council's approval in December 2014 to revise the policy of enrolment of local and non-local students, such that starting from 2016/17, all new non-local students should only be admitted through over-enrolment capped at 20% of the approved UGC-funded student numbers. To effect the policy change, EDB also wrote to UGC, requesting it to make corresponding changes to the enrolment rules for compliance by the UGC-funded universities.

Application of under-enrolment rule to teacher education programmes

As elaborated in paragraphs 2.29 and 2.30 of Chapter 2 of the Director of Audit's Report No. 67, EDB had taken note that there were significant deviations between the actual enrolment figures and the approved student number targets in a few individual streams of teacher education programmes. In response, EDB wrote to UGC in December 2014, suggesting that the various streams of teacher education programme should be treated as distinct manpower-planned programmes for the purpose of applying UGC's enrolment rules, and therefore the relevant student number target of each stream needs to be met.

5. Measures taken by the Education Bureau in addressing the shortfall in student hostel places

The Government recognises that hostel experience is an integral part of higher education, and is committed to supporting the development of publicly-funded student hostels in accordance with well-established policies and calculation criteria. Over the years, the Government has endeavoured to meet the requirements in accordance with these policies and criteria. At present, around 29 200 publicly-funded hostel places are available to the UGC-funded universities, of which some 6 470 were completed in the past five years, while another 676 places are currently under construction. As at 2015/16, there was a shortfall of around 8 660 publicly-funded student hostel places. To cope with the surging requirements, the UGC and its funded universities have been working closely with the Government in the planning work for new hostel projects. Eight hostel projects are currently at various stages of planning by UGC-funded universities, which are expected to deliver around 8 450 publicly-funded hostel places.

It should be reckoned that, as a matter of policy, all public works projects are subject to the availability of funds, which is one of the major factors for consideration. Competition for capital works funding has always been keen. Capital works projects of the UGC-funded universities, as with other capital works projects, would need to compete with other priorities, including housing and land initiatives, hospital projects, roads and railways, as well as other community facilities.

Looking ahead, EDB will continue to work closely with UGC and its funded universities on funding proposals in the Government's capital works resource allocation exercise.

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4 January 2017

Mr Anthony Chu
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Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
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Hong Kong

Dear Mr Chu,

Public Accounts Committee

Consideration of Chapter 2 of the Director of Audit's Report No. 67

Funding of universities by University Grants Committee ("UGC")

I refer to your letter dated 21 December 2016 to the Secretary-General, UGC, requesting for supplementary information on a number of issues on administration of capital grants. The requested information is now set out at the **Appendix** for reference by the Public Accounts Committee. As requested, my colleagues will send you soft copies of the information by email.

Should you need further clarifications on the above, please feel free to contact Miss Winnie Wong, Deputy Secretary-General (1) on 2844 9914.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. T. Armour', with a horizontal line underneath.

(Dr. Richard T ARMOUR)
Secretary-General

c.c. 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)

Appendix

(a) **Breakdown on total and successful applications for hostel places by category of students**

UGC calculates the provisions of publicly-funded student hostels to UGC-funded universities in accordance with the criteria set out in paragraph 3.6 of Chapter 2 of the Audit Report. That said, the actual allocation of student hostel places to individual students is a matter for universities as autonomous bodies. The universities allocate their hostel places (including the publicly-funded, privately-funded and temporary hostel places) to their students (local and non-local students enrolled in the UGC-funded or non-UGC funded programmes, as well as exchange students) in accordance with their own sets of criteria and procedure. Generally speaking, apart from the criteria set out in paragraph 3.6 of the Audit Report, universities also take into account the actual number of applications, merits of individual applicants (e.g. contributions in extra-curricular activities) and compassionate grounds, etc. in assessing the applications.

Based on raw data provided by the universities, the provisional number of total and successful applications for hostel places by students enrolled in UGC-funded programmes, with breakdown by category of students under paragraph 3.6, for the past five years is tabulated at the Annex. The provisional figures are provided to PAC on a **restricted** basis and **should not be disclosed to the public**. This is because we understand that different universities have collected and reported data on applications based on different assumptions and methodologies. To enhance accuracy, we are now working with the universities to make necessary clarifications, with a view to standardizing the methodology used in data collection and reporting, and will inform PAC again once the revised data are available.

***Note by Clerk, PAC:** *Annex not attached.*

(b) Provision of hostel places to students whose daily travelling time exceeding four hours

The Government and the UGC recognise that hostel experience is an integral part of higher education, and are committed to supporting the development of publicly-funded student hostels in accordance with well-established policies and calculation criteria. We consider that students' choice of universities should be based on the quality of education and the disciplines available, and should not be unduly influenced by the proximity of their homes to the universities. Therefore, students who spend excessive travelling time should be provided with hostel places. According to the universities concerned, around 2.5% of the local undergraduate students need to travel more than four hours daily in 2015/16 academic year. Albeit there is a continuous request to meet the hostel shortfall under the existing criteria, we are not aware of a request for review of the criteria themselves, including the criterion concerned with a view to shortening the travelling time from four hours to three hours.

(c) Review of space requirement formulae

The space requirement formulae for assessing the universities' academic space needs were reviewed and updated in 2006. In the process of the 2006 review, the academic space requirements for the "3+3+4" new academic structure, whole person development and internationalization have already been taken into account.

The UGC-funded universities have been informed of the need to consider reviewing the space requirement formulae. The universities will be further consulted and invited to provide feedback on the need for a review later. Should the UGC decide to conduct the review, it may commence in 2017 and may take about two years to complete.

(d) Space inventory updating exercise and space utilization survey

The UGC Secretariat has already completed the reconciliation of the space inventory records with the UGC-funded universities. Both UGC and universities' records have been updated appropriately.

As regards space utilization survey, the UGC-funded universities have been advised to consider the need to conduct such survey. The universities will be further consulted and invited to provide feedback on the scope and way to conduct the survey shortly.

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6 February 2017

Mr Anthony Chu
Clerk
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. 67
Funding of universities by University Grants Committee ("UGC")**

Further to my letter of 4 January 2017, I would like to provide for reference by the Public Accounts Committee the supplementary information at the Annex which supersedes the annex to the appendix attached to the aforementioned letter in response to your letter dated 21 December 2016 requesting for supplementary information on a number of issues on administration of capital grants. My colleagues will send you soft copies of the information by email.

Should you need further clarifications on the above, please feel free to contact Miss Winnie Wong, Deputy Secretary-General (1) on 2844 9914.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. T. Armour', with a horizontal line underneath.

(Dr. Richard T ARMOUR)
Secretary-General

c.c. 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)

**Number of total and successful applications for hostel places by students
enrolled in UGC-funded programmes,
with breakdown by category of students under paragraph 3.6 of
Chapter 2 of the Director of Audit's Report No. 67**

Appendix 16

Further to the provisional figures provided in our ~~letter of 4 January 2017~~, we set out below the figures for the past five years, with breakdown by category of students under paragraph 3.6 of the Director of Audit's Report No. 67, as recently collected from universities.

Year	Local undergraduate students*		
	No. of graduates who have applied but were <u>not</u> given the opportunity to stay in student hostels for at least one year of their courses	Total no. of graduates	% total
2012/13	1,119	14,405	7.8%
2013/14	1,193	14,686	8.1%
2014/15	1,219	15,717	7.8%
2015/16	1,302	17,332	7.5%
2016/17	N/A^		

Year	Non-local sub-degree, undergraduate and taught postgraduate students (including exchange students)		
	No. of applications	No. of successful applications	% total
2012/13	10,484	8,878	84.7%
2013/14	11,310	9,145	80.9%
2014/15	11,181	9,468	84.7%
2015/16	11,401	9,640	84.6%
2016/17	11,862	10,048	84.7%

Year	Research postgraduate students (including both local and non-local students)		
	No. of applications	No. of successful applications	% total
2012/13	5,419	3,601	66.5%
2013/14	6,430	3,850	59.9%
2014/15	6,772	4,076	60.2%
2015/16	6,052	4,089	67.6%
2016/17	6,204	4,126	66.5%

Year	Local undergraduate students whose daily travelling time exceed four hours#		
	No. of applications	No. of successful applications	% total
2012/13	121	48	39.7%
2013/14	310	184	59.4%
2014/15	421	348	82.7%
2015/16	815	652	80.0%
2016/17	826	681	82.4%

Notes

1. * Under the prevailing hostel policy, all undergraduate students who have enrolled in UGC-funded programmes should be given the opportunity to stay in student hostels for at least one year of their courses. Therefore, to assess whether a local undergraduate student is given the opportunity (or not given the opportunity) to stay in a student hostel for at least one year, we should look at his/her application record throughout the entire duration of his/her study, rather than at one particular year only. As such, the UGC Secretariat has asked the UGC-funded universities to provide statistics about the number of graduates who have applied to stay in hostel for at least one year throughout their study periods but nevertheless were not given the opportunity to stay in student hostels for at least one year.
2. ^ Information about the number of graduates in the 2016/17 academic year is not yet available.
3. # HKUST used to allocate hostel places based on students' residential districts instead of

travelling time before the year of 2014/15. Hence, the University has not provided the no. of applications / successful applications for students whose daily travelling time exceeded four hours for the years of 2012/13 and 2013/14.

4. The above statistics are compiled based on information provided by six out of the eight UGC-funded universities (i.e. Lingnan University (LU) and The Education University of Hong Kong (EdUHK) are not covered). Regarding LU and EdUHK, they are not covered because the criteria in paragraph 3.6 of Chapter 2 of the Audit Report are not applicable to these two universities.
5. Position is as at 30 September of each academic year. Excluding student being allocated with hostel places due to other reasons, e.g. family and living condition, health condition, campus activity participation, contribution in extra-curricular activities, etc.

財經事務及庫務局

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FINANCIAL SERVICES AND THE
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3 January 2017

Mr Anthony Chu
Clerk to Public Accounts Subcommittee
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

Public Accounts Subcommittee

Consideration of Chapter 2 of the Director of Audit's Report No. 67

Funding of universities by the University Grants Committee ("UGC")

Thank you for your letter of 13 December 2016 to the Secretary for Financial Services and the Treasury. I am authorised to reply on the Secretary's behalf.

Definition of "commissioning of facilities"

Please find enclosed an email this branch sent to the UGC Secretariat on 6 December 2016 regarding the subject matter. In short, for the purpose of finalising the accounts of capital works projects, "project commissioning date" refers to the date when the project commences functional operation.

Return of unspent project balances and unsupported expenses

UGC Secretariat has advised you vide its ^{Appendix 14}~~letter~~ of ~~23 December 2016 on the same matter~~ that there is no clear evidence showing that universities have intentionally delayed the submission of project final accounts beyond time limit specified in the UGC Notes on Procedures unreasonably. UGC Secretariat has advised this branch separately that they are not aware of any cases in which universities have delayed returning the unspent project balances and unsupported expenses when required by UGC Secretariat in the process of account finalisation.

Given the foregoing, this branch understands from the UGC Secretariat that no interest had ever been charged due to delay in account finalisation, or delay in return of unspent project balances and unsupported expenses, among the 171 cases under reference in your letter.

This branch will consider the propriety of imposing interest or other penalty charges to protect the interest of the Government in cases involving intentional delays in the finalisation of accounts, or in returning unspent project balances and unsupported expenses due to the Government. We will consult relevant parties.

Yours sincerely,



(Jasmine Choi)
for Secretary for Financial Services
and the Treasury

c.c. Secretary-General, University Grants Committee (fax no. 2523 1522)
Secretary for Education (fax no. 2810 7235)
Director of Audit (fax no. 2583 9063)



To: Kelvin YP SIU/UGC/HKSARG@UGC
Cc: Tommy HY TSANG/UGC/HKSARG@UGC, Jasmine SY CHOI/TSYB/HKSARG@TSYB,
Edmund MC CHIU/TSYB/HKSARG@TSYB
Bcc:
Subject: FC 3/2012 - commissioning of facilities
From: Denny LK HO/TSYB/HKSARG - Tuesday 06/12/2016 12:32

Dear Kelvin,

In FC 3/2012, there is no definition of “commissioning of the facilities”. We suggest interpreting “commissioning of the facilities” along the following line -

“For the purpose of finalising the final accounts of capital works projects, “project commissioning date” refers to the date when the project commences functional operation. After the completion of project construction (viz. the “completion”), a project may require time for testing and commissioning purpose, before the project could commence functional operation (viz. “commissioning”). Project commissioning is not tied with the defect liability period.”

Thank you.

Denny
AS(W)1, TsyB

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13 January 2017

Mr Anthony Chu
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Dear Mr Chu,

Public Accounts Committee

Consideration of Chapter 2 of the Director of Audit's Report No. 67

Funding of universities by University Grants Committee ("UGC")

I refer to your letter dated 6 January 2017 to the Secretary-General, UGC, requesting supplementary information on a number of issues discussed at the public hearing held on 6 January 2017. The requested information is now set out at the **Annex** for reference by the Public Accounts Committee. As requested, my colleagues will send you soft copy of the information by email.

Should you need further clarifications on the above, please feel free to contact Miss Winnie Wong, Deputy Secretary-General (1) on 2844 9914.

Yours sincerely,



(Dr. Richard T ARMOUR)
Secretary-General

c.c. Secretary for Education (fax no. 2810 7235))
Secretary for Financial Services and the Treasury (fax no. 2147 5239)) w/o
Director of Audit (fax no. 2583 9063)) Appendix B
)

(a) With reference to paragraph 4.4 of the Audit Report, how were the rates of honoraria set and details of the adjustment mechanism

The rates of honoraria were first approved in 1973 as indicated in the Finance Committee (FC) FCR(91-92)107 in **Appendix A**. As provided for in the said FC paper, the subsequent adjustments to the rates were delegated to the then Secretary for the Treasury for approval, which is now under the authority of the Secretary for Financial Services and the Treasury. The adjustments are made with reference to the annual civil service pay adjustment.

(b) With reference to paragraph 4.5 to 4.6:

- (i) *any mechanism / system in place for the proper and efficient management of conflict of interests and details of such mechanism / systems*

The UGC has adopted a two-tiered system in the declaration of interest by Members. Members are required to declare any possible conflict of interest on their first appointment / reappointment or significant change of circumstances. At the second tier, Members are required to declare interest on a case by case basis whenever necessary, having regard to the nature of the items under discussion. Members with potential conflict of interest are required to excuse themselves from the discussion of the items concerned.

- (ii) *details of the system flaw(s) as mentioned by you at the public hearing which led to 26 Register of Interests forms could not be located*

The UGC Secretariat has reviewed the system on the management of Register of Interests forms submitted by UGC / QAC Members. We note that the system for monitoring the receipt of and the filing of these forms is less than satisfactory with no single register; hence resulting in the failure to locate a number of such forms. In response to the Audit recommendation, we are now preparing a database to provide a central register on the receipt of the Register of Interests forms submitted by Members. A bring-up mechanism will also be set up to closely monitor the progress of submission from Members.

- (iii) *a copy of the 26 Register of Interest forms as mentioned in (ii) above as resubmitted by the relevant members of UGC / the Quality Assurance Council (“QAC”)*

Upon further checking, it has come to the attention of the Secretary-General that two Register of Interests forms were re-submitted by UGC / QAC Members concerned and 24 forms remained outstanding by 6 January 2017, i.e. the date on which the second hearing of the Public Accounts Committee was held. Since then, we have secured the relevant forms from all but one member. We will continue to follow up with the member concerned.

As requested by the PAC, a copy of the forms received, with the names of the UGC / QAC Members concerned redacted, is in **Appendix B** for PAC’s reference. As the Audit Report did not disclose details of the Register of Interest forms completed by UGC / QAC Members, we consider that these copies of forms should not be included in the PAC report.

- (iv) *improvement measures for safekeeping the register of interests forms and whether the public could inspect such forms*

As mentioned at (b) (ii) above, we are now preparing a database to provide a central register on the receipt of the Register of Interests forms submitted by Members. The public could inspect such forms on request.

- (v) *reasons for adopting different requirements for the Research Grants Council (“RGC”) and UGC, the UGC Sub-Committee / Groups and QAC in managing conflicts of interest. What is the timetable for aligning the different requirements?*

RGC members are subject to a more stringent requirement to declare interests, i.e. they are required to update their declaration of interest **annually**, because RGC deals with the allocation of a large amount of funding and the likelihood of inter-institutional conflict changes among institutions is more frequent among Panel members. By comparison, the work of the UGC, the UGC Sub-Committee / Groups and QAC is more of an advisory nature and does not directly involve funding. Hence, the two-tier mechanism for declaring interests is considered appropriate. However, in view of the recommendation of the Audit Commission, we have no objection to inviting Members of the UGC, the UGC Sub-Committees / Groups and QAC to submit updated Register of Interests forms annually as adopted by the RGC. The UGC Secretariat will put in place this

requirement with effect from 1 April 2017 before the next meetings.

(c) With reference to paragraph 4.13(f), details and the timeline for UGC to prepare a document in the form of a strategic plan

The UGC Secretariat will invite the UGC to consider the need to prepare a document in the form of a strategic plan which will set out, amongst other things, the principles, strategies, strategic priorities of the UGC tentatively in the next UGC meeting in May 2017. In the case that the UGC considers that there is such a need, the Secretariat will prepare the document, update it periodically and make it available on the UGC's website.

(d) With reference to Table 22 in paragraph 4.14, a breakdown of expenses on hotel accommodation from 2005-2006 to 2015-2016 financial years by UGC, RGC and QAC as well as the corresponding number of hotel room-nights

Expenses on hotel accommodation of the UGC, RGC and QAC for 2005-06 to 2015-16 financial years and the corresponding number of hotel room-nights are set out in the table below –

Financial year	Expenses on hotel accommodation (\$ million) ^(Note 1)				Number of hotel room-nights			
	UGC	RGC	QAC ^(Note 2)	Total	UGC	RGC	QAC ^(Note 2)	Total
2005-06	0.424	0.301	-	0.726	Remarks: As the information for 10 years is scattered in many files, the figures 2005-06 to 2013-14 is not available yet and will be provided by next week.			
2006-07	0.765	0.049	0.012	0.826				
2007-08	0.656	0.471	0.100	1.227				
2008-09	0.377	0.691	0.166	1.233				
2009-10	0.284	0.583	0.175	1.042				
2010-11	0.274	1.135	0.222	1.631				
2011-12	0.378	1.075	0.044	1.497				
2012-13	0.163	1.331	0.025	1.519				
2013-14	0.796	1.762	0.000	2.558				
2014-15	2.520	1.518	0.060	4.099				
2015-16	0.280	1.537	0.364	2.181	158	873	144	1 175

Note 1 – Figures may not add up to total due to rounding.

Note 2 – The QAC was established in 2007 with its first meeting in April 2007.

(e) Whether the UGC Secretariat will explore with hotels on the possibility of providing special rates for rooms as a package

The UGC Secretariat has invited hotels near the meeting venue to submit quotation for cost comparison. In principle, the lowest quotation would be accepted as the appointed hotel for non-local members. The UGC Secretariat will further explore with hotels on the possibility of providing special rates under the mechanism of quotation exercise.

(f) Details of the per-diem allowance for non-local members, including, the quantum, how were they set and details of the adjustment mechanism (paragraph 4.14 refers)

The UGC Secretariat has adopted the practices of the Government as stipulated in the Civil Service Regulations (CSRs) in respect of subsistence allowance to arrange per-diem allowance for non-local members travelling to Hong Kong to attend meetings. Following the CSR, the per-diem allowance is \$1,080 per day, which is equivalent to 40% of the applicable subsistence allowance rate of \$2,700 at present.

(g) With reference to paragraph 4.16, justifications for choosing the same five upmarket hotels, and whether quotations for other hotels were obtained as alternative options, if not, the reasons why not

Having regard to the status of non-local members who are renowned academics from around the world, the UGC Secretariat considers that it is appropriate to provide hotel accommodation at upmarket hotels for non-local members when they attend meetings in Hong Kong. These five upmarket hotels are located in the vicinity of the meeting venue. In order to enhance the procurement arrangement, the UGC Secretariat has invited additional hotels for submission of quotations with effect from December 2016. In general, all appropriate hotels which are located in the vicinity of the meeting venue are included in the quotation exercise.

(h) With reference to paragraph 4.25(b), whether UGC has consulted the Director of Government Logistics and the Secretary for Financial Services and the Treasury whether the UGC Secretariat's current arrangement of procuring air tickets complies with the Stores and Procurement Regulations; and

(i) Details of discussion between UGC and the Government Logistics Department on improving the procurement process of air tickets, and the latest progress

Following the publication of the Audit Report, the UGC Secretariat has been in dialogue with the representatives from the Government Logistics Department (GLD) and the Financial Services and the Treasury Bureau (FSTB) to consult them on the procurement procedures of air tickets.

During our discussion, we noted from GLD that as a general rule, procurement of air tickets for the **same activity** should be consolidated as far as practicable. We have taken the advice of GLD and will put in place suitable arrangements in the procurement of air tickets in consultation with GLD and FSTB as appropriate.

(j) With reference to paragraph 4.32, has UGC taken any actions to encourage the universities to attract more non-local students, in particular those other than Mainland students

The UGC has all along been encouraging, and will continue to encourage, universities to internationalise in ways that fit its institutional context. In the 2012-15 triennium, the UGC put together a “tripartite” funding scheme (funding from the EDB, the UGC and the UGC-funded universities) of \$30 million to support four new initiatives on internationalisation and engagement with the Mainland, all of which were implemented in 2013/14 and 2014/15. One of the initiatives was to set up a Hong Kong Pavilion in international education conferences to attract more non-local students from different regions as well as to promote the UGC sector as a united front. These annual conferences included the Asia Pacific Association for International Education, NAFSA: Association of International Educators and the European Association for International Education.

Funding would continue to be provided to the universities in the 2016-19 triennium to continue their efforts to attract more diversified sources of non-local students. Apart from the major international education conferences, the universities are given additional funding to expand into new markets they consider to be desirable. The Secretariat will keep in view and see whether and how to encourage universities to attract more diversified non-local students.

(k) With reference to paragraph 4.34(b)¹, what are the key performance indicators used by the universities on internationalization

According to the information provided by the UGC-funded universities, some commonly used key performance indicators on internationalisation used by the UGC-funded universities are –

- Number and percentage of full time non-local academic staff
- Number and percentage of non-local students
- Number of exchange agreements signed with non-local institutions
- Number and percentage of incoming and outgoing exchange students
- Number and percentage of students with non-local learning experience
- Number of research collaborations with non-local institutions

(l) As the UGC Secretariat will consider collecting information on the mix of academic staff of each university, any details on its implementation (paragraph 4.37(b) refers)

The UGC Secretariat will consider collecting information on the mix of academic staff from the UGC-funded universities in the next 2017/18 regular data collection exercise. In accordance with the established mechanism, the Secretariat will consult the universities on the data collection arrangement, including the coverage, definitions and classifications.

¹ Wrong reference (para. 4.32(b)) was quoted in Clerk, PAC's letter of 6 January 2017.

For discussion
on 22 November 1991

FCR(91-92)107
(OMELCO Ref. : E)

ITEM FOR FINANCE COMMITTEE

HEAD 190 - UNIVERSITIES AND POLYTECHNICS
Subhead 167 Honoraria for overseas members

Approved by FC
22/11/91



Members are invited -

- (a) to approve the revision, with effect from 1 January 1992, of the honoraria payable to -
- (i) overseas members of the University and Polytechnic Grants Committee (UPGC) from \$50,000 to \$60,000 a year;
 - (ii) overseas members co-opted by the sub-committees of the UPGC from \$20,000 to \$30,000 a year;
 - (iii) overseas members of the Research Grants Council from \$20,000 to \$40,000 a year; and
- (b) to approve the delegation of the authority to make future revisions of the rates of honoraria to the Secretary for the Treasury.

Copied to FIN/17/67 II

/Introduction

Introduction

The University and Polytechnic Grants Committee (UPGC) is appointed by the Governor and has the following terms of reference -

- (a) to keep under review in the light of the community's needs -
 - (i) the facilities in Hong Kong for education in universities, polytechnics and such other institutions as may from time to time be designated by the Governor;
 - (ii) such plans for the development of such institutions as may be required from time to time;
 - (iii) the financial needs of education in such institutions; and
- (b) to advise the Government -
 - (i) on the application of such funds as may be approved by the legislature for education in such institutions; and
 - (ii) on such aspects of higher education which the Governor may from time to time refer to the Committee.

2. The Research Grants Council (RGC) was established in January 1991 to replace the Research Sub-Committee with the following terms of reference -

- (a) to advise the Government, through the UPGC, on the needs of the institutions of higher education in Hong Kong in the field of academic research, including the identification of priority areas, in order that a research base adequate for the maintenance of academic vigour and pertinent to the needs of Hong Kong may be developed; and

/(b)

- (b) to invite and receive, through the institutions of higher education, applications for research grants from academic staff and for the award of studentships and post-doctoral fellowships; to approve awards and other disbursements from funds made available by the Government through the UPGC for research; and to monitor the implementation of such grants and to report at least annually to the Government through the UPGC.

3. Overseas members of the UPGC are paid an honorarium in acknowledgement of their valuable contribution towards the planning and development of tertiary education in Hong Kong. The honorarium was first approved in 1973 at the rate of \$7,000 a year. Since then, the rate has been increased in stages to the current level of \$50,000 a year to take account of inflation and the increased responsibilities of the UPGC.

4. Overseas personalities co-opted on the sub-committees of the UPGC who are not also members of the Committee are entitled to an honorarium at the rate of \$20,000 a year. The same rate applies to overseas members of the RGC irrespective of whether they are also members of the main Committee. The different treatment of the latter group stems from the fact that RGC is not a sub-committee and it has different terms of reference and workload.

Proposals

5. Since the honorarium for UPGC members was last revised in 1989, civil service salaries have been increased by 27%. It is therefore proposed that the honorarium should be increased by the same percentage to \$63,500 per year, rounded down to \$60,000.

6. The honorarium payable to overseas members co-opted by sub-committees of the UPGC was last approved by Members on 13 December 1986. Since then civil service salaries have been revised upwards by 59%. Accordingly, it is proposed that the rate should also be increased to \$31,800 a year, rounded down to \$30,000. The current membership of the three sub-committees is all drawn from the UPGC. The new honorarium will be paid as and when the UPGC co-opts any members into any of its sub-committees.

11 ← Allen
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/7.

$$\$30,000 \times \frac{1}{2} = \$15,000$$

7. Experience with the RGC has shown that its workload is much heavier than that of a sub-committee of the UPGC. While a sub-committee normally meets for half-a-day three times a year, the RGC meets twice a year, with each session lasting at least a full day. Additionally, members have to attend meetings of the three subject panels. With this in view, the Chairman, RGC has requested that the rate of honorarium payable to each overseas member be increased to \$40,000 a year, which is \$10,000 more than that recommended for members co-opted by the sub-committees of the UPGC.

8. It is also proposed that the Secretary for the Treasury be delegated the authority to approve future revisions of the rates of the honoraria having regard to civil service salary adjustments.

Financial implications

9. At present, the UPGC has ten overseas members; the RGC has five. The full year effect of the proposals will be \$200,000.

10. If approved, the necessary provision will be sought in the context of the 1992-93 draft Estimates.

(FIN 88/2/1(90)V)

**Outstanding Register of Interests forms
mentioned in para 4.6(a) in the audit report**

Form / Member	Appointment / Reappointment period concerned (in chronological order)
Ex-UGC Members	
A	2010/4/1 – 2012/12/31
B	2011/1/1 – 2013/12/31
C	2011/1/1 – 2013/12/31
D	2011/1/1 – 2013/12/31
E	2012/8/1 – 2015/7/31
F (to be provided)	2012/8/1 – 2015/7/31
G	2013/1/1 – 2013/12/31
Existing UGC Members	
H	2011/1/1 – 2013/12/31
I	2013/4/1 – 2016/3/31
J	2013/1/1 – 2015/12/31
Ex-QAC Members	
K	2008/4/1 – 2010/3/31
L	2010/4/1 – 2012/1/9
M ^{Note}	2010/4/1 – 2012/1/9
	2012/1/10 – 2014/3/31
N	2010/4/1 – 2012/3/31
O	2010/4/1 – 2012/3/31
P ^{Note}	2011/4/1 – 2013/3/31
	2013/4/1 – 2014/3/31
Q	2012/4/1 – 2013/3/31
R	2012/4/1 – 2013/3/31
S	2013/3/1 – 2016/3/31
T	2013/4/1 – 2015/3/31
U	2013/4/1 – 2016/3/31
V	2015/4/1 – 2016/3/31
Existing QAC Members	
W	2014/4/1 – 2017/3/31
X	2015/4/1 – 2017/3/31

Note: One form covers two appointment/reappointment periods.

***Note by Clerk, PAC: Register of Interests Forms of Members A to X not attached.**

本署檔號 OUR REF.: UGC/GEN/CON/103/1/4/2002

來函檔號 YOUR REF.: CB4/PAC/R67

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18 January 2017

Mr Anthony Chu
Clerk
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. 67
Funding of universities by University Grants Committee ("UGC")

Further to my letter dated 13 January 2017, we now set out at the **Annex** the remaining information as requested in items (b)(iii) and (d) of your letter dated 6 January 2017. My colleagues will send you soft copy of the information by email.

Should you need further clarifications on the above, please feel free to contact Miss Winnie Wong, Deputy Secretary-General (1) on 2844 9914.

Yours sincerely,



(Dr. Richard T ARMOUR)
Secretary-General

c.c. 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) } w/o Appendix

(b) With reference to paragraph 4.5 to 4.6:

- (iii) *a copy of the 26 Register of Interest forms as mentioned in (ii) above as resubmitted by the relevant members of UGC / the Quality Assurance Council (“QAC”)*

Upon further checking, it has come to the attention of the Secretary-General that two Register of Interests forms were re-submitted by UGC / QAC Members concerned and 24 forms remained outstanding by 6 January 2017, i.e. the date on which the second hearing of the Public Accounts Committee was held. Since then, we have secured the relevant forms from all but one member. We will continue to follow up with the member concerned.

As requested by the PAC, a copy of the forms received, with the names of the UGC / QAC Members concerned redacted, is in **Appendix B** for PAC’s reference. As the Audit Report did not disclose details of the Register of Interest forms completed by UGC / QAC Members, we consider that these copies of forms should not be included in the PAC report.

[Latest position: We have received the remaining Register of Interests form, i.e. Form / Member F as indicated in Appendix B attached in ~~our earlier letter on~~ ^{Appendix 19} 13 January 2017. A copy of the form, with the name of the UGC Member concerned redacted, is enclosed for PAC’s reference.]

(d) With reference to Table 22 in paragraph 4.14, a breakdown of expenses on hotel accommodation from 2005-2006 to 2015-2016 financial years by UGC, RGC and QAC as well as the corresponding number of hotel room-nights

Expenses on hotel accommodation of the UGC, RGC and QAC for 2005-06 to 2015-16 financial years and the corresponding number of hotel room-nights are updated in the table below –

***Note by Clerk, PAC: Register of Interests Form of Member F not attached.**

Financial year	Expenses on hotel accommodation (\$ million) ^(Note 1)				Number of hotel room-nights			
	UGC ^(Note 2)	RGC	QAC ^(Note 3)	Total	UGC ^(Note 2)	RGC	QAC ^(Note 3)	Total
2005-06	0.424	0.301	-	0.726	242	167	-	409
2006-07	0.765	0.049	0.012	0.826	378	27	7	412
2007-08	0.656	0.471	0.100	1.227	221	185	36	442
2008-09	0.377	0.691	0.166	1.233	128	283	82	493
2009-10	0.284	0.583	0.175	1.042	181	375	111	667
2010-11	0.274	1.135	0.222	1.631	127	525	127	779
2011-12	0.378	1.075	0.044	1.497	159	601	25	785
2012-13	0.163	1.331	0.025	1.519	63	607	9	679
2013-14	0.767	1.762	0.029	2.558	264	833	14	1 111
2014-15	2.520	1.518	0.060	4.099	1 374	820	33	2 227
2015-16	0.280	1.537	0.364	2.181	158	873	144	1 175

Note 1 – Figures may not add up to total due to rounding.

Note 2 – The increase in hotel accommodation expenses and hotel room-nights in 2006-07 and 2014-15 were mainly due to the conduct of Research Assessment Exercise in 2006 and 2014 respectively. In these two financial years, many non-local academics were invited to attend meetings in Hong Kong.

Note 3 – The QAC was established in 2007 with its first meeting in April 2007.



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
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18 January 2017

Clerk
Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong
(Attn: Mr Anthony Chu)

Dear Mr Chu,

**Legislative Council
Public Accounts Committee**

**Consideration of Chapter 2 of the Director of Audit's Report No. 67
Funding of universities by the University Grants Committee**

I refer to your letter of 6 January 2017 to the Secretary for Education. The requested information is now set out at Annex for reference by the Public Accounts Committee.

Yours sincerely,



(Sharon Ko)

for Secretary for Education

cc

Secretary-General, University Grants Committee
Secretary for Financial Services and the Treasury (Attn: Mr Raistlin Lau)
Director of Audit

**Legislative Council
Public Accounts Committee (PAC)**

Supplementary information provided by the Secretary for Education in response to the letter from the Clerk to the PAC dated 6 January 2017

- (a) **Measures taken / to be taken by the Administration to collate statistics of Mainland students who have remained to work/stay in Hong Kong after graduating**
- (b) **Statistics on Mainland students of postgraduate programmes who have remained to work / stay in Hong Kong after graduating for the past five years**

At present, the Immigration Department (ImmD) administers the “Immigration Arrangements for Non-local Graduates (IANG)”, which allows non-local students who have obtained an undergraduate or higher qualification in a full-time and locally-accredited local programme in Hong Kong to apply to stay/return and work in Hong Kong. Both non-local fresh graduates (i.e. non-local graduates who submit applications to ImmD within six months after graduation) and returning non-local graduates (i.e. non-local graduates who submit applications to ImmD beyond six months after graduation) are eligible under the scheme. In this regard, IANG-related statistics are maintained by ImmD.

According to ImmD, the number of approved IANG applications since April 2015 from Mainland residents who have obtained master’s degrees and doctorate degrees are tabulated below:

	2015 (April to December)	2016
Doctorate degree	661	894
Master’s degree	6 008	6 425

According to ImmD, the above breakdown statistics are not readily available for the period before April 2015. Besides, breakdown statistics by source of funding (University Grants Committee (UGC)-funded and non-UGC-funded) are not readily available.

For reference purpose, the total number of approved IANG applications

from Mainland residents since 2012 (including graduates from both UGC-funded and non-UGC-funded undergraduate and postgraduate programmes) is also provided as follows:

	2012	2013	2014	2015	2016
Total number of approved IANG applications from Mainland residents	6 428	8 187	9 714	9 541	8 611

(c) Number of total and successful applications for postgraduate programmes in the UGC-funded universities, breakdown by local applicants, Mainland applicants, and non-local applicants other than Mainland applicants, each year for the past five years

The number of applications for and student intakes of UGC-funded research postgraduate (RPg) programmes by place of origin from the 2012/13 to 2016/17 academic years are set out at Appendix to Annex.

Information on the number of applications for UGC-funded taught postgraduate (TPg) programmes is not available.

(d) Measures taken/to be taken by the Administration to encourage more local talents to apply for postgraduate programmes in Hong Kong

(e) Whether the Administration will consider reserving a certain number of places of postgraduate programmes for application by local applicants only

Research is crucial to the development of higher education and enhancing the competitiveness of an economy. With a view to boosting the research capacity of Hong Kong through attracting high quality talents from around the world, the Government accepted and the Panel on Education of the Legislative Council was briefed on the UGC's recommendation in 2002 that the quota for non-local RPg students should be removed from the UGC-funded universities. The UGC's recommendation, which was formulated after extensive consultation with the universities, academics and the community at large, is conducive to attracting the best talents worldwide to enhance the research quality of Hong Kong, thereby ensuring that public money is spent on the most worthy causes, and is in line with the international practice. In contrast, imposing restrictions on the number of non-local students for RPg programmes would only pose hindrance to the

****Note by Clerk, PAC: Please see Appendix 24 of this Report for Appendix to Annex.***

pursuit of academic excellence by the local higher education sector and lead to a loss of high quality research talents and projects to other places.

As a result of the UGC's recommendation in 2002, UGC-funded universities currently admit RPg students on a merit basis, taking into account the students' academic results and research capability, regardless of their place of origin. RPg students so admitted play an important role in the higher education sector. Apart from participating directly in a large number of research activities, they are also engaged in the teaching activities of universities (as teaching assistants, laboratory administrators, etc.) and serve as a bridge between undergraduates and the teaching staff, thereby making contributions to teaching and the passing on of knowledge in universities.

Over the past years, the Government and universities have organized symposiums, seminars, talks, and promotion activities such as through RoadShow to attract local talents to apply for postgraduate programmes in Hong Kong. This notwithstanding, the decision of local graduates on whether and where to pursue postgraduate studies, especially RPg programmes, is a personal choice affected by such factors as prevailing employment opportunities in the market, students' career orientation and prospect in the teaching/research fields. Furthermore, among local students who choose to pursue RPg studies, many would do so abroad, so that they can conduct research under a different culture and environment.

In the 2015/16 academic year, about 29% of the applications for UGC-funded RPg programmes submitted by local students were admitted by universities, whilst only about 11% of applications by non-local students (including those from the Mainland) were admitted. This indicates that the chance for local students to be admitted to UGC-funded RPg programme is more than double of that for non-local students. Moreover, UGC-funded universities have yet to fully utilise their over-enrolment capacity, which means if applications for RPg programmes are received from outstanding local students, UGC-funded universities still have spare capacity to consider their admission on a merit basis.

As regards UGC-funded TPg programmes, recruitment of non-local students to UGC-funded TPg programmes (alongside sub-degree and undergraduate programmes) is subject to a cap, by study level, that is equivalent to 20% of the approved student numbers. This helps strike a balance between enrolling non-local students for the benefit of the higher education sector as a whole, and ensuring that the vast majority of the student population of these programmes remains local.



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25 January 2017

Clerk
Public Accounts Committee
Legislative Council
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Hong Kong
(Attn: Mr Anthony Chu)

Dear Mr Chu,

**Legislative Council
Public Accounts Committee**

**Consideration of Chapter 2 of the Director of Audit's Report No. 67
Funding of universities by the University Grants Committee**

I refer to your letter of 18 January 2017 to the Secretary for Education. The requested information is now set out at Annex for reference by the Public Accounts Committee.

Yours sincerely,

(Sharon Ko)

for Secretary for Education

cc

Secretary-General, University Grants Committee
Secretary for Financial Services and the Treasury (Attn: Mr Raistlin Lau)
Director of Audit

**Legislative Council
Public Accounts Committee (PAC)**

**Supplementary information provided by the Secretary for Education in
response to the letter from the Clerk to the PAC dated 18 January 2017**

Supplementary information requested

Statistics on Mainland students of UGC-funded undergraduate programmes who have remained to work/stay in Hong Kong after graduating for the past five years

Response from the Secretary for Education

At present, the Immigration Department (ImmD) administers the “Immigration Arrangements for Non-local Graduates (IANG)”, which allows non-local students who have obtained an undergraduate or higher qualification in a full-time and locally-accredited local programme in Hong Kong to apply to stay/return and work in Hong Kong. Both non-local fresh graduates (i.e. non-local graduates who submit applications to ImmD within six months after graduation) and returning non-local graduates (i.e. non-local graduates who submit applications to ImmD beyond six months after graduation) are eligible under the scheme.

According to ImmD, the number of approved IANG applications since April 2015 from Mainland residents who have obtained bachelor’s degree or equivalent are tabulated below:

	2015 (April to December)	2016
Bachelor’s degree	2 159	1 273
Other academic qualifications at degree level or equivalent	22	19

According to ImmD, the above breakdown statistics are not readily available for the period before April 2015. Besides, breakdown statistics by source of funding (University Grants Committee (UGC)-funded and non-UGC-funded) are not readily available.

For reference purpose, the total number of approved IANG applications from Mainland residents since 2012 (including graduates from both UGC-funded and non-UGC-funded undergraduate and postgraduate programmes) is also provided as follows:

	2012	2013	2014	2015	2016
Total number of approved IANG applications from Mainland residents	6 428	8 187	9 714	9 541	8 611



中華人民共和國香港特別行政區政府總部教育局
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4 January 2017

Clerk
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(Attn: Mr Anthony Chu)

Dear Mr Chu,

**Legislative Council
Public Accounts Committee**

**Consideration of Chapter 2 of the Director of Audit's Report No. 67
Funding of universities by the University Grants Committee**

I refer to your letter of 21 December 2016 to the Secretary for Education. The requested information is now set out at Annex for reference by the Public Accounts Committee.

Yours sincerely,

(Sammy Leung)
for Secretary for Education

cc
Secretary-General, University Grants Committee
Secretary for Financial Services and the Treasury (Attn: Mr Raistlin Lau)
Director of Audit

**Legislative Council
Public Accounts Committee**

**Information on the impact of resources available to local students,
including but not limited to student hostel places,
if universities enrol more non-local students to their
University Grants Committee (UGC)-funded sub-degree (SD),
undergraduate (Ug) and taught postgraduate (TPg) programmes**

As a matter of principle, enrolment of non-local students to UGC-funded SD, Ug and TPg programmes should not be considered as creating an adverse impact on local students of these programmes. On the contrary, non-local students help diversify the local higher education sector and enhance the competitiveness of our students and Hong Kong as a whole. A multi-cultural learning environment, with students coming from other countries/regions, will help enhance cultural exchanges, broaden the horizons of the local students and ensure that our graduates, local and non-local alike, are globally competitive.

2. Moreover, whilst noting the immense benefits of recruitment of non-local students, the Government implements the following measures to ensure that the resources available to local students will not be compromised as a result of recruitment of non-local students:

(a) 20% cap on enrolment of non-local students

Recruitment of non-local students to UGC-funded SD, Ug and TPg is subject to a cap, by study level, that is equivalent to 20% of the approved student numbers. This helps strike a balance between enrolling non-local students for the benefit of the higher education sector as a whole, and ensuring that the vast majority of the student population of these programmes remains local.

(b) Admission of non-local students by over-enrolment

Starting from the 2016/17 academic year, all new non-local students of UGC-funded SD, Ug and TPg programmes must be admitted through over-enrolment outside the approved student numbers. This helps ensure that precious publicly-funded student places, including but not limited to the 15 000 first-year first-degree places, are entirely reserved for admission of local students. In other words, local students will not be “displaced” whatsoever as a result of admission of non-local students.

(c) Tuition fees for non-local students

Under existing policy, UGC-funded universities should charge non-local students of UGC-funded SD, Ug and TPg programmes tuition fees at levels at least sufficient to recover all additional direct costs, and that the tuition fees should in no circumstances be lower than the fees applicable to local students. This policy helps ensure that recurrent resources available to local students will not in any way be compromised as a result of admission of non-local students.

(d) Provision of hostel places and academic space

Under existing policy, the needs of both local and non-local students for hostel places and academic space are fully and separately taken into account when calculating the provisions available to UGC-funded universities according to the established formulae. For example, under existing policy, subject to availability of land and resources, the provision of publicly-funded hostel places to UGC-funded universities is calculated in accordance with the following criteria¹:

- (i) all local Ug students who have enrolled in UGC-funded programmes should be given the opportunity to stay in student hostels for at least one year of their courses; and
- (ii) the following students who have enrolled in UGC-funded programmes should be provided with student hostel places:
 - (1) non-local SD, Ug and TPg students;
 - (2) local and non-local research postgraduate students; and
 - (3) local Ug students whose daily travelling time exceeds four hours.

In other words, under existing policy, the number of hostel places to be provided to UGC-funded universities has already taken into account the needs of local Ug students according to (i) and (ii)(3) above, *irrespective of the number of non-local Ug students admitted*. The actual allocation of places by individual universities in a particular year will depend on the number of available places, the actual demand and their own allocation policies.

¹ The criteria are applicable to all the universities, except Lingnan University (LU) and The Education University of Hong Kong (EdUHK). LU has been provided with publicly-funded hostel places for 50% of its full-time degree student population having regard to its remote location in Tuen Mun and its aspiration to develop itself into a fully residential liberal arts university. EdUHK has been provided with publicly-funded hostel places for 50% of its full-time degree student population projected at the time of its establishment having regard to the potential benefits that hostel life would bring to the quality of pre-service teacher education.

Appendix to Annex

**Number of applications for and student intakes of UGC-funded research postgraduate programmes
by place of origin, 2012/13 to 2016/17**

(Headcount)

Academic year	Local students			The Mainland			Other non-local students			Overall		
	Number of applications	Student intakes	No. of intakes as % of no. of applications	Number of applications	Student intakes	No. of intakes as % of no. of applications	Number of applications	Student intakes	No. of intakes as % of no. of applications	Number of applications	Student intakes	No. of intakes as % of no. of applications
2012/13	2 158	541	25.1%	14 580	1 476	10.1%	2 944	232	7.9%	19 682	2 249	11.4%
2013/14	2 040	535	26.2%	15 451	1 615	10.5%	3 149	261	8.3%	20 640	2 411	11.7%
2014/15	2 141	503	23.5%	16 235	1 699	10.5%	3 546	288	8.1%	21 922	2 490	11.4%
2015/16	1 868	535	28.6%	13 352	1 610	12.1%	3 548	240	6.8%	18 768	2 385	12.7%
2016/17 [#]	2 020	577	28.5%	10 613	1 638	15.4%	3 820	352	9.2%	16 453	2 567	15.6%

Notes:

1. Applicants can apply to more than one UGC-funded university, i.e. multiple applications.
2. Number of applications of research postgraduate programmes (RPg) refers to the number one year prior to the corresponding academic year.
3. The place of origin of non-local students is determined having regard to their nationality.
4. The number of RPg students are in decimal places which are all rounded to integers in this table. If the RPg students are financed by institutions using both UGC and external funds, they will be counted towards different sources on a pro-rata basis. Hence, figures may not add up to the corresponding totals due to rounding.
5. # Student intakes for the 2016/17 academic year are provisional figures.

香港特別行政區政府
保安局



The Government of the
Hong Kong Special Administrative Region
Security Bureau

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10 January 2017

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 3 of the Director of Audit's Report No. 67
Procurement and maintenance of fire services equipment

Thank you for your letter of 19 December 2016 on the captioned. In consultation with the relevant departments, our response is set out at **Annex**.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Alex Chan', written over a white background.

(Alex Chan)
for Secretary for Security

c.c.

Director of Fire Services	Fax: 2368 9744
Director of Government Logistics	Fax: 2116 0183
Director of Electrical and Mechanical Services	Fax: 2882 9042
Director of Marine	Fax: 2850 8810
Secretary for Financial Services and the Treasury	Fax: 2147 5239
Director of Audit	Fax: 2583 9063

**Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No. 67
Procurement and maintenance of fire services equipment**

Security Bureau's Response

Question

According to paragraph 4.12, the implementation of the replacement projects of Fireboat No. 7 and two new speedboats have been delayed for about 3 to 4 years. Did the Fire Services Department (FSD) notify the Security Bureau (SB) about the delay? According to paragraph 4.14, in December 2015, SB informed the Panel on Security of FSD's proposal to procure a new fireboat and a new fast rescue vessel for commissioning in 2018, with a view to enhancing its firefighting and rescue capability in the eastern waters of Hong Kong. Nevertheless, up to August 2016, the procurement proposals of the two new vessels had not yet been submitted to the Marine Department for approval. Does SB consider it possible that the said new fireboat and new fast rescue vessel can be commissioned in 2018 as planned in the light of the prevailing circumstances?

Security Bureau's Response

The Fire Services Department (FSD) reviews from time to time its marine firefighting and rescue strategies in Hong Kong as well as the related equipment required. FSD also conducts risk assessment for different water areas and puts up proposals for procurement and replacement of vessels in the light of operational needs. In processing the vessel procurement and replacement proposals submitted by FSD, the Security Bureau (SB) would scrutinise the proposals to determine whether or not to give policy support and apply for funding. When the funding is approved, FSD and the Marine Department (MD) are responsible for implementing the vessel procurement and replacement proposals.

2. With respect to the procurement matters relating to the replacement of Fireboat No. 7 and the two diving support speedboats as mentioned in paragraph 4.12 of the Audit Report, SB was notified in August 2013 that due to the delay in MD's government vessel building projects, as well as the lack of sufficient staff with relevant experience in the Department, the procurement plans of various vessels of the disciplined services (including the aforesaid fire

vessels) were delayed. SB was concerned about the situation and has been following up with the relevant departments and FSD.

3. As regards the proposal to procure a fireboat and a fast rescue vessel, which was discussed by the Panel on Security of the Legislative Council in December 2015, SB understands that since MD needs to simultaneously plan for the procurement for a number of government vessels (including replacement of old vessels and procurement of new ones), the progress of the procurement of the new fireboat and new fast rescue vessel would also be delayed upon further liaison between MD and FSD. According to the current progress, it is estimated that the construction of the two new vessels would be completed in 2020 for commissioning.

4. Prior to the commissioning of the new fire vessels (including the aforesaid fireboats, diving support speedboats and fast rescue vessel), SB will ask FSD to continue reviewing on a regular basis the inshore installations and all potential fire risks of different water areas, as well as deployment of fire vessels and resources of fireboat stations and their operational strategies, and to put in place appropriate operational arrangements to meet the demand of specific areas or during special periods. In addition, as set out in paragraph 4.11 of the Audit Report, FSD and MD have taken interim measures, including replacing the engines of Fireboat No. 7 and the diving support speedboats to maintain their operational capabilities. We are also aware that MD has implemented a series of improvement measures to expedite the vessel procurement process. Please refer to ~~MD's letter of 3 January 2017 to the Public Accounts Committee~~ for details. *Appendix 29*

消 防 處

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FIRE SERVICES DEPARTMENT

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Mr Anthony CHU
Clerk to the Public Accounts Committee, Legislative Council
Legislative Council Complex
1 Legislative Council Road,
Central, Hong Kong

9 January 2017

Dear Sir,

Public Accounts Committee

Consideration of Chapter 3 of the Director of Audit's Report No.67

Procurement and Maintenance of Fire Services Equipment

Thank you for your letter of 19 December 2016 in respect of the captioned subject.

In order to facilitate the Public Accounts Committee's consideration of the above chapter, I enclose the responses from FSD as per Appendix for your consolidation and further preparation.

Should you require further information, please feel free to contact Mr. HO Chun-pong, Dennis at 2733 7884.

Yours sincerely,


(YEUNG Yan-kin, Andy)
for Director of Fire Services

Encl. (Appendix)

- c.c. Secretary for Security (Fax no. 2877 0636)
- Secretary for Financial Services and the Treasury (Fax no. 2147 5239)
- Director of Government Logistics (Fax no. 2116 0183)
- Director of Electrical and Mechanical Services (Fax no. 2882 9042)
- Director of Marine (Fax no. 2850 8810)
- Director of Audit (Fax no. 2583 9063)

Public Accounts Committee**Consideration of Chapter 3 of the Director of Audit's Report No. 67****Procurement and maintenance of fire services equipment****Reply to Q1**

Q1. Regarding paragraph 2.8, has the Fire Services Department ("FSD") conducted risk assessments on the commissioning of the Third Generation Mobilizing System ("TGMS") before the completion of the System Acceptance Tests ("SATs") and taken corresponding measures to reduce the associated risks? According to paragraphs 2.4 and 2.16, FSD is preparing for the replacement/upgrade of TGMS which has a design serviceable life of 10 years (by 2017) and extendable to 15 years (by 2022). In preparing for the replacement/upgrade of TGMS, what measures will FSD take to ensure that the new TGMS will be commissioned only after the proper completion of SATs?

Risk assessments and corresponding measures undertaken by the Fire Services Department before the commissioning of the Third Generation Mobilising System

The Second Generation Mobilising System (SGMS) of the Fire Services Department (FSD) was put into use in 1991. As the SGMS would reach the end of its serviceable life in 2003, the FSD commissioned a consultancy study in 1999 to decide on the direction for the replacement/upgrade of the mobilising system. Given that the SGMS was ageing and its functions and capacity have reached their limits, thus failing to meet the increasing service demand, the FSD proposed developing the Third Generation Mobilising System (TGMS) to replace the SGMS. The funding for the proposal was approved by the Finance Committee in 2000.

Since the contractor could no longer provide maintenance services due to the shortage of spare parts for maintenance of the outdated hardware of the SGMS, the FSD found it difficult to mobilise fire and ambulance resources effectively and efficiently. Having conducted a comprehensive risk assessment and relevant tests, the FSD was of the view that the major functions of the TGMS available at that time should be sufficient to meet daily operational needs and to provide the public with better emergency firefighting and rescue services. The TGMS was therefore rolled out in March 2005.

Before the commissioning of the TGMS, the FSD had conducted function and reliability tests and risk assessments on all the sub-systems, including testing the simulated incident creation in the Computerised Mobilising System (CMS); verifying the addresses in the Geographic Information System (GIS); and testing the accuracy and stability of the Automatic Vehicle Location System (AVLS) of ambulances and fire appliances.

In addition, shadow operation had been employed to assess the operational risks of the system. This involved entering the information of the same incident into both the new and old systems to assess if the TGMS could deliver correct mobilisation instructions and rectify any operational problems found. The purpose was to ensure that the TGMS, when in live operation, could handle properly the changing circumstances in the wake of the incidents and deliver appropriate mobilisation instructions.

Apart from comprehensive risk assessments, the FSD had implemented the following risk reduction measures before and during the initial stage of the full commissioning of the TGMS:-

- providing a series of operation training for frontline staff before the commissioning of the system, and collecting their views on the operation of the system so that improvements could be made;
- commissioning the system by Command and by phase, namely launching the system first in the New Territories Command in March 2005, followed by the full commissioning of the system in the Hong Kong Command and Kowloon Command in June 2005, with a view to minimising the risks that might arise from the actual operation of the system;
- deploying additional staff to operate both the new and old systems simultaneously during the initial stage of launching the TGMS to ensure its smooth operation; and
- retaining all the equipment of the SGMS for backup purposes, lest the mobilisation service be affected by any instability that might occur during the initial stage of the system rollout.

During the initial stage of the full commissioning of the TGMS, frontline staff needed time to adapt to the major changes in operation and in the system. Compared with the SGMS, the TGMS employed the most advanced technology in the market at that time. For example, the system was equipped

with the AVLS and GIS for the first time to determine the precise location of fire appliances and ambulances; and there was a built-in database of mobilisation instructions for all types of emergency calls to complement the fully automatic mobilisation function of the system. It was necessary for frontline staff to familiarise themselves with the new operation interface and learn to use the applications with new functions. After the first year of adaptation and familiarisation, the target of meeting the graded response times in 92.5% of cases were met for both fire and emergency ambulance calls in 2006-07.

Replacement/upgrade of the TGMS

The FSD commissioned a consultant in 2014 to conduct a technical study on the replacement/upgrade of the TGMS, where extensive consultation was held with stakeholders, including frontline staff, representatives of various staff associations/unions, the management, relevant government departments, public organisations and trade practitioners. Their views on the design and operation of the next generation of the mobilising system were collected so that the design could fully meet the actual needs of users, and the technical risks associated with the commissioning of a new system could be minimised.

In planning for the next generation of the mobilising system, the FSD will consider the consultant's report of the technical study, deliberate the feasibility of the design and technical requirements, and set out relevant details in the tender. By following the recommendations made in the Office of the Government Chief Information Officer Circulars No. 1/2014 and No. 2/2015, the FSD will engage the stakeholders as soon as possible in the development of the next generation of the mobilising system. A steering committee chaired by a directorate officer will be set up to oversee the project and formulate practical and feasible terms for the system design in light of the users' comments so as to avoid any unnecessary design changes during system development that may affect the progress of the project.

In handling the contract for developing the next generation of the mobilising system, the FSD will enhance its supervision of the contractor's performance. On top of conducting regular meetings with the contractor to monitor the work progress and ensure that the progress of the project is in compliance with the contract requirements, the FSD will also appoint technical managers of

individual sub-systems to monitor closely the progress of the project in accordance with the timetable set, making sure that the system will be put into operation only after the completion of all testing and acceptance tests. Should there be any delay, the person in charge of the project must report immediately to the steering committee. If necessary, the FSD will follow up with the contractor and claim damages in accordance with the terms of the contract.

Public Accounts Committee

Consideration of Chapter 3 of the Director of Audit’s Report No. 67

Procurement and maintenance of fire services equipment

Reply to Q2

Q2. Regarding paragraphs 2.8(b) and 2.14, please advise what dedicated department or professional staff were tasked by FSD to draw up the TGMS contract or other similar contracts? Does FSD agree that it is necessary to require such dedicated department, before drawing up a contract, to meet with the professional regulatory departments to examine whether the contract terms are reasonable and forward looking?

In procuring the Third Generation Mobilising System (TGMS), a dedicated team of professionals and engineers from relevant professional departments (including the Fire Services Department (FSD), the Electrical and Mechanical Services Department, the Lands Department, the former Office of the Telecommunications Authority and the former Information Technology Services Department) was formed to draw up the contract for the development of the TGMS and to oversee the project’s progress. The tender for the TGMS project was vetted by the Government Logistics Department (GLD) and the Department of Justice (DoJ) to ensure that the contract terms were reasonable and forward-looking. As for the drafting of other similar contracts, such as those for new information and communications technology projects, the FSD will appoint professionals seconded from relevant departments to oversee the work in addition to seeking advice from the GLD and the DoJ.

Drawing on the experience of the TGMS project, the FSD will follow the recommendations made in the Office of the Government Chief Information Officer Circulars No. 1/2004 and No. 2/2015 and engage the stakeholders as soon as possible in the development of the next generation of the mobilising system and other similar projects. The FSD will also set up a steering committee chaired by a directorate officer to oversee the progress of a project. Before drawing up a contract, the FSD will liaise closely with the aforesaid professional regulatory departments and meet with them regularly to examine whether the contract terms are reasonable and forward-looking.

Public Accounts Committee

Consideration of Chapter 3 of the Director of Audit's Report No. 67

Procurement and maintenance of fire services equipment

Reply to Q3

Q3. According to paragraph 2.10, it was the estimation of FSD in 2000 that a funding of \$13 million was available for engaging the Government's trading funds to provide professional advice on TGMS. However, a total of \$81.2 million had been spent so far on the project concerned. Furthermore, after the completion of SATs for TGMS in April 2007, it took FSD and Contractor A four years to agree on the arrangements for handling the outstanding contractual work items. After that, Contractor A took another four years to complete all the agreed and outstanding contractual work in August 2015. Please advise on :

- (a) the reasons for failing to work out an estimate on the additional expenditure to be incurred; the reasons for failing to expeditiously deal with the outstanding contractual matters; who should be held responsible; and**
- (b) the reasons why it was only after FSD had accepted TGMS did FSD lay down the condition with Contractor A that outstanding contractual work items were to be handled separately.**

3(a) Unforeseen difficulties encountered at various stages of the Third Generation Mobilising System (TGMS) project have caused delays. As a result, \$81.2 million was spent engaging the Government trading fund services to provide professional advice for the project. The details are as follows:-

From system development to full commissioning

From 2001 to June 2005 when the TGMS came into operation, the Electrical and Mechanical Services Department and the former Office of the Telecommunications Authority received accountable payments from the Fire Services Department (FSD) on a monthly basis. The FSD paid a total service fee of \$33.4 million for professional advice from trading funds, of which \$24.1 million was paid to the Electrical and Mechanical Services Trading Fund (EMSTF) and \$9.3 million to the former Office of Telecommunications Authority Trading Fund. During this period, the FSD encountered the following technical difficulties:-

- In June 2001, the Architectural Services Department informed the FSD that its contractor was unable to take up the design works of the Fire Services Communications Centre (FSCC) because of the specific requirements in workflow, operational accuracy, efficiency and resilience of disaster recovery, etc. The FSD had to reassign the design works to the TGMS contractor by means of a contract variation. This resulted in a 21-month delay in the development of the TGMS. The professional staff of the trading funds had to devote extra resources and time to monitor the work progress of the contractor.
- The outbreak of Severe Acute Respiratory Syndrome (SARS) in 2003 impeded the TGMS contractor's deployment of technical staff from Singapore, Finland, Canada, Taiwan and mainland China to Hong Kong. The situation persisted for four months, resulting in the extended engagement of the trading funds services.
- To meet the changing needs of society, the FSD launched the First Responder Programme and Fire Motor Cycle services in 2003 to keep up its quality emergency firefighting and rescue services. As a result, the contractor had to modify the design of the TGMS, including the redesign of system commands, modification of all relevant contingency programs of the mobilising system, incorporation of stability tests and addition of capabilities for relevant statistics reports. This, again, has extended the engagement of the trading fund services.

System Acceptance Tests (SATs)

From July 2005 to April 2007, the FSD paid a total of \$11.9 million to the EMSTF for providing professional advice and monitoring the completion of the System Acceptance Tests by the contractor. The upgrade of the Second Generation Mobilising System to the TGMS introduced a number of new functions, including the instant automatic identification and location of fire and ambulance resources, the Automatic Call-out System, and the newly-acquired Mobile Data Terminals for enhanced communication between frontline personnel and the FSCC. Some of the new functions came across unexpected situations when in application. For example, the performance of the Global Positioning System turned out to be unsatisfactory amidst the high-rise buildings of Hong Kong. Such unforeseen difficulties warranted an additional input of professional manpower to tackle.

Post-SATs

After the SATs for the TGMS were completed in April 2007, the FSD considered the major functions of the TGMS available at that stage were sufficient to cope with daily operational needs. However, the contractor had yet to complete 200 non-core contractual work items, e.g., sub-system status report function, documentation and training. Since May 2007, \$35.9 million has been spent on the extended engagement of the EMSTF to help supervise the contractor and to provide professional advice.

Drawing on the above experience, the FSD will step up its contract management to ensure that all projects will be completed within the specified timeframes in strict accordance with the contract terms in the development of the next generation of the mobilising system and other similar projects.

3(b) Since the contractor could no longer provide maintenance services due to the shortage of spare parts for maintenance of the outdated hardware of the Second Generation Mobilising System, the FSD found it difficult to mobilise fire and ambulance resources effectively and efficiently. On the other hand, the outstanding contractual work items were mainly non-core ones (e.g., sub-system status report function and documentation), the absence of which would not affect the major functions of the TGMS. Having conducted a comprehensive risk assessment and relevant tests, the FSD was of the view that the major functions available in the TGMS at that time should be sufficient to cope with daily operational needs and to provide the public with better emergency firefighting and rescue services. It therefore decided to commission the new system in March 2005 before following up on the outstanding contractual work items with the contractor.

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No. 67
Procurement and maintenance of fire services equipment
Reply to Q4

Q4. Regarding paragraph 2.10(c), has FSD taken measures to urge the contractor to complete the contractual work expeditiously in order to reduce the professional service fee payable to the Electrical and Mechanical Services Trading Fund ("EMSTF") for monitoring the contractor? Will FSD adopt measures to avoid the recurrence of similar contractual problems, i.e. the contractor's failure to complete the contractual work?

After the completion of the System Acceptance Tests for the Third Generation Mobilising System, the FSD has engaged in continuous negotiations with the contractor to formulate measures to deal with the outstanding contractual work items; and in the process the FSD has also maintained close liaison with some government departments including, among others, the Government Logistics Department and the Office of the Government Chief Information Officer, to seek their professional views. The FSD subsequently reached an agreement with the contractor. To minimise professional service fees due to the Electrical and Mechanical Services Trading Fund, the contractor has been urged to complete the work expeditiously. Among the 200 outstanding contractual work items, 101 were system function-related work items and 99 documentation/training-related work items. Since some documentation reports and training-related work items could be finalised and prepared only after the completion of system functions work, the contractor had to wait until the completion of the relevant functions before going about the documentation. Under the supervision and urging of the FSD, the contractor completed 90 per cent of the work items by 2013, i.e., two years after reaching the agreement with the FSD, and all the remaining work items in 2015.

The FSD will enhance its supervision of contractors' performance when it handles the contracts of the next generation of the mobilising system and similar projects in future. On top of conducting regular meetings with the contractors to monitor the work progress and ensure that the progress of the projects is in compliance with the contract requirements, the FSD will also appoint dedicated technical managers of individual systems to monitor closely

the progress of the projects in accordance with the timetables set, making sure that the systems will be put into operation only after the completion of all testing and acceptance tests. If necessary, the FSD will follow up with the contractors and claim damages in accordance with the terms of the contracts.

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No. 67
Procurement and maintenance of fire services equipment
Reply to Q5

Q5. Regarding paragraphs 2.12 and 2.20(d), please advise on:

- (a) the details of the follow-up actions taken by FSD in respect of its instruction to Contractor A to strengthen its maintenance services with a view to meeting the response time and turnaround time targets as stipulated in the contract;**
- (b) from 2009 to 2015, the compliance level with the maintenance response time target and the turnaround time target on the part of Contractor A; and the latest compliance level;**
- (c) whether the aforesaid cases of non-compliance had any direct or indirect impact on the response time to service calls;**
- (d) given that under the mechanism for claiming damages, Contractor A's failure in meeting the performance targets for the maintenance work was of a serious nature, whether FSD will claim damages against Contractor A;**
- (e) whether FSD will, when drawing up the pertinent contract in the future, consider introducing more stringent progressive penalty and evaluation mechanism, with a view to improving non-compliance with the performance targets for maintenance on the part of the contractor; and**
- (f) the measures in place to ensure that contract damages can be claimed and recovered in a timely manner in case of default by the contractor in the future.**

As one of the sub-systems of the Third Generation Mobilising System (TGMS), the Automatic Vehicle Location System (AVLS) is designed to provide accurate positioning for FSD vehicles and transmit the data to other sub-systems for mobilisation of fire and ambulance resources. In the past, the frontline personnel were made aware of faults in the AVLS mainly through fault notifications shown on the display screens installed on board the fire and ambulance vehicles. To enhance the accuracy of the AVLS, since 2012-13, the Information Technology Management Unit of the FSD has retrieved data through a computer program to monitor the positions of the vehicles and the positioning data they uploaded. Suspected fault cases, if identified, were verified by the technical staff before reported to the contractor at specific time

slots on a daily basis. Under the new mechanism, the total number of suspected fault cases rose from 496 in 2011-12 to 1 251 in 2015-16. Generally speaking, the number of suspected fault cases as reported by frontline personnel under the AVLS and those by the computer program account for about 20% and 80% of the total number of cases respectively.

According to the stipulated response time (RT) under the contract, the contractor must arrive at the relevant unit for follow-up action within two hours upon receipt of any fault report. Since suspected fault cases involving positioning data may be attributable to the problems triggered by the AVLS due to partial failure, such cases are classified as “serious incidents”, which necessitate the contractor’s rectification within six hours upon arrival at the scene. Failing of this will be deemed as non-compliance cases.

The FSD’s replies to the various parts of the question are as follows:

- (a) The FSD, in conjunction with the contractor, has conducted a review of the mechanism under which fault cases are identified by the computer program, and reiterated to the contractor the necessity to strengthen its maintenance service to meet the RT and turnaround time (TT) targets as stipulated in the contract. Since September 2016, the contractor has been required to submit daily maintenance records to the FSD as a means to monitor its compliance rate, coupled with a report of the progress of maintenance on a weekly basis. The FSD also supervises and urges the contractor at their monthly meetings to enhance maintenance efficiency through proper monitoring the work of its frontline maintenance staff.
- (b) From April 2009 to March 2015, as shown in the monthly maintenance reports from the contractor, where the AVLS is concerned, the average non-compliance rate as against the maintenance RT target (two hours) was 46% while that of TT target (six hours) was 57%. The situation has ameliorated since the introduction of improvement measures. From October to November 2016, the average compliance rate of the maintenance RT target increased to 72% while that of the TT target 82%.
- (c) Most of the non-compliance cases only involved the inaccurate positioning of vehicles or insufficient positioning data. When faults were identified in the positioning of vehicles, frontline personnel would manually enter the

location data or report the accurate positioning of the vehicles to the Fire Services Communications Centre. Besides, the problem of insufficient positioning data would not affect the availability status of the vehicles. Therefore, the AVLS could still manage to monitor the availability status and real-time positioning of the vehicles.

According to the records, among some 875 FSD vehicles in attendance on average per day, an average of around 12 vehicles (or 1.4%) were identified by the computer program as suspected cases involving the accuracy of the positioning units from September to November 2016; and of the 12 vehicles, eight vehicles immediately resumed normal operation after a reboot of the AVLS. On average, around four cases per day were those involving failure to identify vehicle location. The number of such cases was minimal when compared to the entire fleet (875 vehicles). Under the current mobilising mechanism, the computer system is still capable of identifying and mobilising the nearest fire appliances to the scene. Therefore, at present there are no data which show that the non-compliance cases have made any tangible impact on the FSD response time for emergency services. In fact, the FSD has maintained a response time performance above the target set in the performance pledge (i.e. 92.5%) for emergency services (including fire and emergency ambulance calls) since 2012.

- (d) The FSD will follow up on each non-compliance case and claim damages from the contractor in accordance with the terms of the contract. If no significant improvements are made in meeting the targets, the FSD will issue a warning letter to the contractor and keep a record of non-compliance cases for future reference when making evaluation of any other tenders submitted by the contractor.
- (e) When drawing up the tender for the next generation of the mobilising system, the FSD will consider putting in place more effective penalty clauses and evaluation specifications including a progressive penalty system and a more stringent evaluation mechanism, with a view to improving non-compliance with the performance targets for maintenance on the part of the contractor. Besides, the FSD will expressly provide in the contract that the contractor is required to enhance the manpower of maintenance staff according to the actual needs so as to meet the related maintenance targets.

- (f) The FSD has come to an agreement with the contractor of the TGMS over the arrangements that non-compliance cases will be counted on a monthly basis and damages will be claimed from the contractor every six months upon mutual confirmation by both parties.

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No. 67
Procurement and maintenance of fire services equipment
Reply to Q6

Q6. Regarding paragraph 2.14, does FSD agree that the cost for an extension of the TGMS maintenance services contract for five years was considerably high, and there was a need to procure such services through competitive bidding? What measures will FSD take to avoid the recurrence of similar contract problems (there is no competitive bidding and the maintenance services period is extended simply by means of a contract variation)?

Since the Third Generation Mobilising System (TGMS) has been in operation without interruption for over 10 years, the contractor has to replace some of the aged components to ensure the proper operation and stability of the system. To this end, the contractor has to hire experienced professionals and purchase suitable spare parts for the maintenance of the TGMS. As such, the increase of 7.4% (after discounting the estimated inflation) in the fee for the extended maintenance services is still considered as reasonable.

On the other hand, the FSD does not consider it appropriate to acquire the extended maintenance services for the TGMS through competitive bidding. Given that the TGMS is used for the effective and efficient mobilisation of fire and ambulance resources, which is instrumental to the provision of effective fire-fighting, rescue and ambulance services, the FSD has to ensure the operational stability of the system. Furthermore, as the TGMS involved proprietary design, no other contractors in the market have the ability and expertise to undertake such maintenance services. Should the extended maintenance services be acquired through competitive bidding with the contract eventually awarded to another contractor, it will very likely bring about immense instability and uncertainty to the system and hence serious impact on the mobilisation service. In view of this, the FSD, having critically examined different options for acquiring the extended maintenance services, submitted the relevant proposal to the Government Logistics Department (GLD), Department of Justice and Financial Services and the Treasury Bureau (FSTB) for consideration. The FSTB subsequently approved an extension of the maintenance services contract for five years by means of a contract

variation.

In response to the audit recommendations, the FSD has commenced a study with the GLD to explore suitable options for handling the extendable parts of a contract when entering into the contract for the next generation of the mobilising system or other similar projects in future. By drawing on other government departments' experience in introducing contract terms for extended maintenance services, the FSD is also considering the feasibility of bringing in competitive bidding for acquiring the services whenever practicable. It should however be emphasised that any procurement proposal should be based on the premise that the stability and reliability of the mobilisation service will not be compromised.

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No. 67
Procurement and maintenance of fire services equipment
Reply to Q7

Q7. Regarding paragraph 2.17, please advise on:

- (a) it is noted from the meeting of the Panel on Security held in March 2016 that the fourth generation Command and Control Communications System to be introduced by the Police will extend the coverage of the current function of automatically identifying the location of 999 callers to all local fixed-line and mobile phone users; in this connection, what technical difficulties which FSD believes will arise in providing mobile phone location identification function in the next generation of the mobilising system; and**
- (b) the estimated cost for such provision.**

7(a) The Fire Services Department (FSD) has carried out a technical study on the replacement/upgrade of the Third Generation Mobilising System. The report of the study reveals that, technically, the next generation of the mobilising system should be able to identify the location of mobile phone callers. Further, major mobile network operators equipped with the relevant technology should have no technical difficulties in retrieving the information on the location of mobile phone callers from their networks as long as the necessary supporting devices are installed.

In considering the introduction of the mobile phone location identification function to the next generation of the mobilising system, apart from technical matters, compliance with relevant ordinances including the Personal Data (Privacy) Ordinance (Cap. 486) and the Telecommunications Ordinance (Cap. 106) should also be ensured. Some fixed telecommunications network services operators have managed to obtain, without violation of the above ordinances, the phone location of callers and disclosed the information to the FSD for the purpose of emergency services. The FSD will make reference to the above arrangements when developing the next generation of the mobilising system.

It is concluded that the recommendation on providing mobile phone location identification function in the next generation of the mobilising system should be feasible. The FSD will continue to proactively liaise with all the mobile network operators with a view to implementing the recommendation as scheduled.

- 7(b) By a rough estimate, the provision of mobile phone location identification function will cost about \$12 million, which includes the costs of hardware, software and maintenance as well as the service fees of mobile network operators.

Public Accounts Committee

Consideration of Chapter 3 of the Director of Audit's Report No. 67

Procurement and maintenance of fire services equipment

Reply to Q8

Q8. According to paragraphs 2.25 to 2.27 and 2.29 to 2.32, FSD included provisions for claiming damages in contracts entered into with contractors, but such provisions were not contained in the contracts entered into with EMSTF. Please advise on:

- (a) the differences in the criteria adopted by FSD in entering into contracts with contractors and government departments;**
- (b) the reasons why provisions for claiming damages were not introduced in the Service Level Agreement made with EMSTF; how FSD will ensure that the level of service can be maintained in case any problem arises; and**
- (c) the directions in which FSD will consider when exploring the feasibility of introducing provisions for claiming damages.**

(a) Regarding the procurement of maintenance services, the contracts or service level agreements (SLAs) made between the Fire Services Department (FSD) and contractors or other government departments serve to ensure the proper maintenance and repair of systems and equipment to keep them in effective working order. Through the contracts or SLAs, the FSD can also monitor the maintenance and repair service level of the contractors or government departments concerned. There is no specific difference in substance between contracts and SLAs.

(b) The FSD and Electrical and Mechanical Services Trading Fund (EMSTF) signed their first SLA in April 2006 for the maintenance of the infrastructure and terminal equipment of the Digital Trunked Radio System for a period of 10 years. When drawing up the provisions of the SLA, the FSD considered that there was no need to introduce any provision for claiming damages due to the following considerations:

- (i) The EMSTF has been delivering a consistently good level of maintenance and repair services for the FSD equipment;
- (ii) Strong working relations between the FSD and the EMSTF have been established throughout the years;
- (iii) The FSD would include in the SLA various performance targets and a

monitoring mechanism, and review the EMSTF's service performance through regular meetings and regular maintenance records submitted by the EMSTF; and

(iv) The FSD had consulted similar SLAs between the EMSTF and other government departments and found no provisions for claiming damages in most of them.

- (c) The FSD and the EMSTF agreed on a performance monitoring mechanism when drawing up the SLA. Under the mechanism, the FSD reviews the service level with the Electrical and Mechanical Services Department through regular meetings; and the EMSTF is required to submit accurate maintenance records in a timely manner for the FSD to examine its service performance and ensure the service level. To take it a step further, the FSD will revisit the maintenance and service requirements for various items in order to set key performance indicators for all maintenance work. The FSD will also require the EMSTF to report monthly results of the key performance indicators for more effective monitoring of the performance of the EMSTF.

The FSD and the EMSTF met in December 2016 to discuss the above monitoring mechanism. They will further study the introduction of provisions for claiming damages in detail and decide whether to incorporate such provisions into future SLAs.

Public Accounts Committee**Consideration of Chapter 3 of the Director of Audit's Report No. 67****Procurement and maintenance of fire services equipment****Reply to Q9**

Q9. According to paragraphs 2.8, 2.10, 2.14, 2.25 to 2.32, 3.26 and 4.8 to 4.11, a number of circumstances show that the relevant departments have problems in respect of tender invitation and the drawing up, understanding and observance of the contracts and requirements concerned. Please advise whether the relevant government departments currently have sufficient resources to provide suitable training for the relevant staff in FSD, and whether FSD has adequate number of professional staff with the required expertise to carry out the relevant work. Does FSD have plans to discuss with the relevant departments ways to ameliorate the relevant problems, so as to avoid causing delays to the relevant work due to the aforesaid circumstances, or incurring unnecessary expenditure and affecting the efficiency of work due to mismanagement.

In the Fire Services Department (FSD), there are six Fire Officers, six Supplies Officers on secondment from the Government Logistics Department (GLD), three Electrical and Mechanical Engineers on secondment from the Electrical and Mechanical Services Department and eight professionals with wide information technology work experience responsible for the procurement, contract development and contract management of various kinds of equipment, systems and facilities. The FSD considers the current staffing level adequate.

On the training front, the FSD makes arrangements from time to time for procurement staff to attend courses offered by the GLD on procurement management, Stores and Procurement Regulations (the Regulations), laws of contract, etc., to enhance their knowledge of procurement and contract management. The Procurement and Logistics Group also arranges seminars every year for staff of various FSD units to deepen their understanding of the Regulations, especially of the requirements on tendering, drawing up technical specifications and contract management. The FSD considers the present training resources adequate to meet the daily operational needs of the procurement staff. It will closely monitor the situation and remind its staff to strictly observe the requirements and guidelines on procurement and contract

management. Necessary training will be provided in a timely manner.

To enhance the procurement work of major projects, the FSD has set up a Fire Appliances and Equipment Procurement Monitoring Committee chaired by a directorate officer to monitor regularly the progress of major procurement projects to ensure compliance with the Regulations and completion as scheduled.

The FSD met with the GLD in December 2016 to explore feasible improvement measures on tendering, contract development and enforcement, and compliance with requirements. Both parties agreed to start discussions and draw up working schedules for major procurement projects as early as possible in the future.

Public Accounts Committee

Consideration of Chapter 3 of the Director of Audit's Report No. 67

Procurement and maintenance of fire services equipment

Reply to Q10

Q10. According to paragraph 3.4, as at 1 May 2016, of FSD's 620 vehicles, 246 (40%) vehicles had exceeded their expected serviceable lives (by four years on average). Does FSD agree that the vehicle age profile of those vehicles was unsatisfactory? Has FSD assessed the risk of the operation of FSD being possibly affected by this circumstance? According to paragraph 3.3, FSD had prepared its annual Departmental Procurement Strategy, including, among others, a 10-year procurement plan for its fire services equipment. Will the vehicle age profile of fire appliances and support vehicles be improved under the 10-year procurement plan? If so, when will the improvement take place?

The Fire Services Department (FSD) has all along attached great importance to the safety and reliability of its vehicles with a view to maintaining a high standard of operational efficiency. To ensure their proper functioning, all fire appliances undergo routine checks by frontline fire personnel on a daily basis. Our Workshops and Transport Division and the Electrical and Mechanical Services Trading Fund (EMSTF) have also engaged in the assessment of the overall condition of the fire appliances and support vehicles through regular inspections and maintenance to ensure that all of them are fit for use.

In fact, the working order of a vehicle is affected by a spectrum of factors, such as its working environment, operation mode, mileage, fault rate and bodywork state. The expected serviceable life is just one of the parameters to be considered in determining whether a vehicle is in need of replacement, not the sole indicator.

Regarding the 264 fire appliances and support vehicles identified in the Director of Audit's Report as having exceeded their expected serviceable lives, our Workshops and Transport Division and the EMSTF have conducted regular assessments of their operational performance. The results show that all of them meet safety standards and are fit for continued use without compromising our operational efficiency.

The FSD takes into consideration a number of factors when drawing up the 10-year procurement plan for fire appliances and support vehicles, such as the types, functions and serviceable lives of the appliances; maintenance and replacement costs; technical advice given by the Workshops and Transport Division and the EMSTF; breakdown and fault rates of fire appliances; and availability of spare parts. The replacement programme is subject to an annual review in light of actual circumstances to ensure that the entire fleet is reliable. According to the procurement plan, it is anticipated that in the year 2021-22 the average age of our fleet will drop roughly from the current eight years to five years, with the age of about 90% of the fire appliances and support vehicles being within their expected serviceable lives.

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit’s Report No. 67
Procurement and maintenance of fire services equipment
Reply to Q11

Q11. According to paragraph 3.11, 37 newly procured fire appliances were put into operation some four years later than the original target commissioning dates. What had FSD learnt from this and what measures has it taken to avoid recurrence of similar incidents?

As mentioned in paragraph 3.12 of the Director of Audit’s Report, there are existing or potential legal proceedings under the five contracts. In order not to prejudice the legal proceedings, the Fire Services Department refrains from making any comments on related matters at this stage.

Public Accounts Committee**Consideration of Chapter 3 of the Director of Audit's Report No. 67****Procurement and maintenance of fire services equipment****Reply to Q12**

Q12. Regarding paragraphs 3.22 and 3.24, what were FSD's justifications for failing to release the vehicles concerned for maintenance? Has FSD assessed the risk of the reliability of such vehicles being possibly affected, and what measures will it take to address the relevant risk? What is the latest situation with respect to such vehicles' compliance with the scheduled maintenance requirements?

When fire appliances and support vehicles have to undergo scheduled preventive maintenance, arrangements will be made for them to be substituted by backup vehicles so that operational efficiency will not be compromised. However, the Fire Services Department (FSD) has to mobilise these backup vehicles from time to time to meet operational needs, and in that case they cannot be released for substitution, making it impossible for individual vehicles to be delivered timely to the Workshops and Transport Division for maintenance. Under existing arrangements, if the Workshops and Transport Division finds that a vehicle is overdue for preventive maintenance for over two months, the maintenance staff of the Division will immediately visit the fire station concerned to conduct an on-site inspection to ensure the vehicle's safety and operational efficiency. Furthermore, our frontline fire personnel conduct daily routine checking of fire appliances to ensure that they are in operational condition. If any anomaly is detected in the course of the daily checking, the frontline personnel will inform the Workshops and Transport Division immediately for check and repair to ensure roadworthiness.

The FSD has recently introduced an array of measures to fine tune the arrangements for releasing vehicles for scheduled maintenance. Since 2015, the FSD has stepped up its supervision of the implementation of the maintenance schedule of fire appliances and support vehicles with the aid of the monthly reports of the Asset Management and Maintenance System. In October 2016, the Workshops and Transport Division also introduced a new mechanism to strengthen communication with fire stations. Our data show that following the introduction of the new mechanism, no fire appliances were overdue for preventive maintenance for over two months, indicative that the new

mechanism helps ensure that fire appliances and support vehicles are maintained on schedule.

In addition, the FSD met with the Electrical and Mechanical Services Trading Fund in December 2016 to explore the feasibility of deploying maintenance staff for on-site inspections of vehicles that have missed their scheduled maintenance at the workshops.

To further enhance roadworthiness and operational efficiency, the FSD is conducting a review of the fleet size of backup vehicles with the objective of allowing the release of vehicles for maintenance in a more flexible manner.

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No. 67
Procurement and maintenance of fire services equipment
Reply to Q13

Q13. According to paragraphs 3.26, the cases of non-compliance with the scheduled maintenance requirements as stipulated by the Workshops and Transport Division and EMSTF's work instruction were not brought to the attention of the senior management of FSD. Please advise on:

- (a) the reasons for not bringing the cases to the attention of the senior management of FSD;**
- (b) whether FSD will review the codes and guidelines on reporting to senior management by frontline staff, and how it will enhance inter-departmental communication in order to avoid maintenance delays which might speed up vehicle depreciation and incur additional expenses; and**
- (c) how FSD will enhance maintenance efficiency.**

The management of the Fire Services Department (FSD) has long attached great importance to the safety and reliability of its vehicles, and has kept tabs on the vehicles' operational condition through regular meetings with the Workshops and Transport Division in order to maintain a high standard of operational efficiency.

A number of factors come into play with regard to making arrangements for the vehicles to receive scheduled maintenance at the Workshops and Transport Division and the Electrical and Mechanical Services Trading Fund (EMSTF). For example, the vehicles may be engaged due to operational needs, or there are no other suitable vehicles for substitution. Generally speaking, if and when a vehicle is unable to meet regular maintenance requirement as scheduled, the operational unit concerned will work out alternative arrangements with the Workshops and Transport Division and the EMSTF. Furthermore, our fire personnel conduct daily routine checking of fire appliances to ensure that they are in operational condition. If any anomaly is detected in the course of the daily checking, the fire personnel will inform the Workshops and Transport Division immediately for check and repair to ensure roadworthiness and operational efficiency.

Since the safety and operational efficiency of the fleet will not be undermined by the failure of individual vehicles to be delivered for scheduled preventive maintenance, the Workshops and Transport Division has not reported to the senior management on every case of missing the scheduled maintenance. That said, the FSD agrees that there is room for improvement in the reporting mechanism. From November 2016 onwards, the Workshops and Transport Division will submit maintenance reports on the fleet to the senior management so that any cases of failure in receiving scheduled maintenance are promptly noticed and resolved.

On the other hand, while no extra expenses are found to be incurred as a result of delayed preventive maintenance, the FSD is exploring a number of measures to enhance maintenance efficiency, such as strengthening the fleet of backup vehicles to meet operational needs, and streamlining procurement procedures for vehicle parts to minimise maintenance delays due to shortage of spare parts. To address the manpower shortage of the Workshops and Transport Division, the FSD will put in place mitigation measures, such as employing temporary fitters, to ensure that the vehicles can receive preventive maintenance as scheduled.

In response to the audit recommendations, the FSD has set up a steering committee chaired by a directorate officer to oversee the repair and maintenance work in the department, which include monitoring and enhancing the vehicle maintenance services.

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit’s Report No. 67
Procurement and maintenance of fire services equipment
Reply to Q14

Q14. Regarding paragraphs 1.3, 1.9 to 1.10 and 4.2 to 4.3, please advise on:

- (a) the numbers of fire and rescue incidents on land handled by FSD over the past three years; and**
- (b) the fire services staff deployed for frontline operations at sea and on land over the past three years.**

(a) The numbers of fire and rescue incidents on land handled by the Fire Services Department over the past three years are tabulated below:-

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Fire incidents on land	6 183	6 347	6 306
Rescue incidents	14 803	16 526	16 196

(b) The fire services staffing responsible for frontline operations at sea and on land over the past three years are tabulated below:-

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Frontline operational fire staff (at sea)	343	346	365
Frontline operational fire staff (on land)	5 681	5 707	5 741

Public Accounts Committee**Consideration of Chapter 3 of the Director of Audit's Report No. 67****Procurement and maintenance of fire services equipment****Reply to Q15**

Q15. According to paragraph 1.3, FSD's graded response times for building fire calls are six minutes for built-up areas and 9 to 23 minutes for areas of more dispersed risk/isolated developments. As regards emergency ambulance services, the target on-scene response time is 12 minutes. Nonetheless, according to a question raised by a Member of the Legislative Council at the Council meeting held on 28 October 2015, it actually took FSD's fire vessels 20 to 46 minutes to arrive at the scenes in some of the typhoon shelters. Has FSD assessed whether its team responsible for marine fire services has adequate equipment to cope with the current fire or rescue incidents? Does it have a need to procure additional marine fire-fighting equipment?

The Fire Services Department (FSD) reviews its overall marine firefighting and rescue strategies in Hong Kong and related equipment from time to time. It conducts risk assessments of different waters, taking into account such factors as the distribution of vessels, traffic on shipping channels, and existence of high risk facilities at sea and along coastal areas, in deciding the location of fireboat stations and deployment of fire vessels. The need for additional rescue equipment is also reviewed in a timely manner.

The FSD has a total of 21 fire vessels including two major fireboats, four medium fireboats, one rescue launch, two support vessels, two diving support speedboats, two command boats and eight speedboats. These vessels are respectively berthed at six fireboat stations, Ngong Shuen Chau Diving Base and the Hong Kong International Airport to provide marine firefighting, rescue and ambulance services throughout Hong Kong waters. In addition, the FSD obtained funding in 2015-16 for procuring a new fireboat and a new fast rescue vessel to enhance its marine rescue service in the eastern waters.

Upon receiving a report of a marine fire or rescue incident in Hong Kong waters, the FSD will, having regard to the prevailing circumstances, dispatch the fireboats and speedboats nearest to the scene to handle the incident. At the same time, fire appliances will also be dispatched from nearby onshore fire

stations to provide speedy support. Land crews, when necessary, may board a police launch to set off immediately for firefighting and rescue operations. Fire personnel may combat the fire using the firefighting equipment available on certain police launches or the portable firefighting equipment on hand should circumstances require. As an effective means to address maritime incidents, the FSD may also request support from vessels of other departments, if the need arises, through the Maritime Rescue Co-ordination Centre under the inter-departmental “Contingency Plan for Maritime and Aeronautical Search and Rescue” laid down by the Security Bureau.

To get prepared for different types of emergency rescue incidents at sea, the FSD keeps optimising the performance of firefighting vessels and various types of rescue and firefighting equipment as well as enhancing the rescue capabilities and professional knowledge of the fire and rescue personnel. For example in 2016, the FSD put a new model of light portable pumps into use on the major pumps deployed at the fire stations in the vicinity of major typhoon shelters to increase the operational efficiency of land crews in dealing with fires in typhoon shelters. Two mini fire vans deployed at Sai Kung and Ap Lei Chau Fire Stations respectively have also been converted and equipped with the new light portable pumps to enhance the firefighting capabilities in nearby coastal areas. Moreover, to enhance ambulance equipment on existing fire vessels and to better plan for the design of ambulance equipment on new fire vessels to be procured in the future, the FSD has formed a task force to examine and analyse different enhancement proposals including the installation of a multi-functional treatment room with professional ambulance equipment on new fireboats to comprehensively complement the ambulance service.

Public Accounts Committee

Consideration of Chapter 3 of the Director of Audit's Report No. 67

Procurement and maintenance of fire services equipment

Reply to Q16 & 17

Q16. Regarding paragraphs 4.3(b), 4.4 and Table 11, has FSD assessed the risk of the services of the 10 aged vessels in question being possibly affected, and what measures will it take to address the relevant risk?

Q17. Regarding paragraphs 4.9 and 4.13, would FSD please advise on the overall performance of fire-fighting vessels in meeting the target on-scene response time since 2011? Does the deteriorated performance of two diving support speedboats have any impact on the response time to service calls?

There is no standard response time or performance pledge for marine fire calls in Hong Kong, nor is there any relevant standard for reference around the world. The berthing of vessels at sea differs from the distribution of buildings on land in that marine areas are larger in size, and the vessels are more widely spread and of higher mobility. Unlike the land areas, there is no risk category for the marine areas for regular specific risk assessments. Moreover, different firefighting vessels have different capabilities and maximum speeds. Their actual speeds also depend on external environmental factors such as sea conditions, wind direction, wind speed, visibility and inshore traffic conditions. Thus, the FSD considers it difficult to set a specific response time for individual waters. That said, the FSD assesses potential fire risks from time to time and flexibly deploys existing resources to strategic positions in light of the overall risk of different waters and inshore facilities. Appropriate operational arrangements are also put in place to cater for the needs of individual areas or during special periods so as to handle any emergencies that may occur.

The two diving support speedboats and eight Airport Fire Contingent speedboats of the FSD were put into service in 1999 and 1998 respectively. Though beyond their designed serviceable lives of 15 years, the speedboats are maintained and overhauled on a regular basis just like other firefighting vessels. The Marine Department (MD) also assesses their conditions from time to time. Recent assessment reports indicated that the speedboats can remain in service

with adequate repair and maintenance. The FSD has worked with the MD to draw up measures to mitigate the impact of aging speedboats. One of the measures is the replacement of hulls and propulsion engines of the speedboats to maintain their operational capabilities so that the provision of rescue services will not be affected. In March 2015, the MD replaced the hull and engine of one diving support speedboat to ensure that it would continue to function properly. In June 2016, the FSD awarded another contract for similar upgrading works for the other diving support speedboat. The upgrade is expected to complete in March 2017.

Public Accounts Committee**Consideration of Chapter 3 of the Director of Audit's Report No. 67****Procurement and maintenance of fire services equipment****Reply to Q18**

Q18. Regarding paragraph 5.9 and note 56, does FSD agree that the total expenses for the provision of a comprehensive managed care and maintenance services ("CMCMS") to the fire-fighting protective suits with a shelf life of 10 years is comparable to the value (\$81 million) of Contract E, a contract for the supply of fire-fighting protective suits? In view of the considerable costs involved for making contract variations, does FSD agree that it is equally important to bring in competitive tendering in the procurement of CMCMS?

The Fire Services Department (FSD) attaches great importance to the safety of fire personnel in firefighting and rescue operations; frontline personnel are provided with adequate and professional personal protective gear. To protect fire personnel against the extreme heat and flashovers that often occur at structural fire scenes, the FSD introduced in 2010 the structural firefighting protective suits currently in use by frontline fire personnel. In compliance with the international standard of "Performance requirements for protective clothing for firefighting", the protective suits can withstand a temperature of up to 1 000 °C at fire scenes and are one of the models that can offer the best protection in the market. As the complicated design and structure of the protective suits warrant laundry and repair services of an extra high standard, the FSD has to ensure that their protective performance will not be undermined by improper laundry or repairs, otherwise it may result in casualties of fire personnel. Besides, fire personnel in action may be inevitably exposed to various hazardous substances, such as combustion products or chemicals produced from a fire, which may contaminate the protective suits and weaken their fire resistance. Physical contacts with contaminated protective suits may also pose a risk to fire personnel, while contaminated protective suits without proper laundry care may cause cross contamination and put other people at risk. Therefore, the protective suits must be provided with a comprehensive managed care and maintenance service (CMCMS), comprising laundry, inspection, repairs, elimination of hazardous substances and regular inspection, by trained personnel with specialised equipment according to the

manufacturer's requirements to ensure that they can meet the stringent performance requirements set out in the international standard at all times for the protection of fire personnel in action. As such, the service has to be provided by a contractor with professional knowledge of the structure of the protective suits and professional competence to maintain their protective performance in compliance with the international standard after laundry and repairs. It is no job for an ordinary laundry company.

According to the information provided by the manufacturer, there is no specific length of shelf life for a set of firefighting protective suit. Its serviceable life mainly depends on the frequency of use, laundry and repairs, accidental damage or contamination, normal wear and tear, etc. The FSD considers that a suitable CMCMS can help maintain the protective performance of the protective suits to meet the stringent performance requirements set out in the international standard. Depending on the usage, a set of firefighting protective suit may have a serviceable life of not less than 10 years.

As a professional and proper CMCMS is instrumental to ensuring the protective performance of the protective suits, the FSD has procured the CMCMS through contract variations totalling \$50.1 million for a total of six years from April 2011 to March 2017. Since the procurement of protective suits and that of the CMCMS are two items of different natures made in different years, it is not appropriate to draw a direct comparison between the total expenses of these two items.

For the provision of the CMCMS from April 2017 onwards, the FSD considers that, even if open tendering is adopted, it is necessary to include in the tender a specific clause requiring the tenderer to obtain a confirmation from the supplier of the protective suits indicating that it possesses the professional qualifications to provide the CMCMS that meets the stringent requirements set out in the international standard so as to ensure that the protective performance of the protective suits will not be compromised by improper laundry and repairs. On this premise, the FSD adopted open tendering in August 2016 for the provision of the CMCMS from 1 April 2017 to 31 March 2022.

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4 January 2017

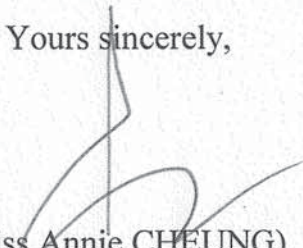
Mr Anthony Chu
Clerk to the Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No. 67
Procurement and maintenance of fire services equipment

I refer to your letter dated 19 December 2016 regarding the procurement and maintenance of fire services equipment. Our responses are set out at **Annex**.

Yours sincerely,



(Miss Annie CHEUNG)

for Director of Government Logistics

c.c. Secretary for Security (fax no.: 2877 0636)
Director of Fire Services (fax no.: 2368 9744)
Secretary for Financial Services and the Treasury (fax no.: 2147 5239)
Director of Audit (fax no.: 2583 9063)

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No. 67
Procurement and maintenance of fire services equipment

Question for the Government Logistics Department

According to paragraph 2.11, during the period between October 2013 and January 2016, the procurement process in two cases, including the procurement of services to install Third Generation Mobilizing System ("TGMS") equipment for new ambulances and fire appliances by the Fire Services Department ("FSD") and the Government Logistics Department ("GLD"), took a long time to complete, resulting in a seven-month delay in commissioning 14 new fire appliances. What were the relevant reasons for such delay? According to paragraph 2.11(b), in processing FSD's single tender request regarding the installation of TGMS equipment on 126 new emergency vehicles, during the period between April and November 2015, GLD raised 12 rounds of questions on the tender terms and conditions for FSD's clarification. Please advise on the reasons for GLD to raise such a large number of questions? What were the concerns of GLD which FSD had failed to address? What measures will GLD take to avoid the recurrence of similar delays?

Government Logistics Department's Response

Procurement Procedures and Questions to the Fire Services Department

In order to protect the interests of the Government, government departments should take into account various factors (including the procurement requirements, the availability of the required equipment and technology in the market, the compatibility of the required equipment with existing systems, and the applicability and consistency of the tender terms and contract conditions) in determining the mode of procurement and drafting appropriate terms and conditions. In addition, adequate time shall be provided to allow tenderers to prepare and submit the tenders. A minimum of three weeks is normally required. For procurements covered by the Agreement on Government Procurement of the World Trade Organization, at least 40 days shall be allowed for receipt of tenders.

With regard to the first procurement case (see paragraph 2.11 (a) of the Report), the Fire Services Department (FSD) started discussions with the Government Logistics Department (GLD) on the procurement strategy in late 2013 and GLD received FSD's request for a contract variation for the procurement of Third

Generation Mobilising System (TGMS) equipment in March 2014. After careful consideration of all relevant factors, including the procurement requirements and the applicability of the existing contract conditions, GLD considered that it would be more appropriate to procure the TGMS equipment by way of a single tendering exercise and proposed this procurement strategy to FSD in June 2014. FSD agreed to the proposal and submitted to GLD a request for single tender in the same month. Thereafter, GLD and FSD expedited the procurement process as far as possible and awarded the contract in November 2014. With hindsight, the process of determining the procurement strategy should have been completed more quickly so that a timely agreement could be reached between FSD and GLD on the procurement strategy to enable the single tendering exercise to start in early 2014.

As regards the second procurement case (see paragraph 2.11 (b) of the Report), the specifications and arrangements were complicated. GLD needed more time to prepare the tender document and clarify the procurement details carefully with FSD to ensure that the tender document could accurately reflect its operational needs and the terms and conditions of the tender document were consistent. Since FSD has revised its detailed arrangements (for example, the implementation timeline of the new items and the maintenance requirements), GLD had to amend the other relevant terms accordingly, make further clarifications with FSD and provide the amendments for FSD's consideration.

Improvement Measures

GLD has reviewed the above two procurement cases. In order to avoid the recurrence of similar situation, in the acquisition or replacement of complex, mission-critical or high-value equipment, GLD will strengthen communication and cooperation with FSD with a view to reducing the number of questions and shortening the processing time. GLD will also work out a tendering timeline with FSD for both parties to effectively monitor the tendering progress. Moreover, GLD will assist FSD to commence the preparatory work as early as possible (including drafting complete and comprehensive tender requirements) and give timely advice to FSD on the tendering strategy to ensure that the tender exercise meets FSD's requirements and the Government's procurement principles.

機電工程署 EMSD

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(12) in LM(2) to EMSD CRA/4-35/2/1 Pt. 3 (E.9)

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4 January 2017

Public Accounts Committee
Legislative Council, Legislative Council Complex,
1 Legislative Council Road, Central, Hong Kong
(Attn.: Mr. Anthony CHU)

Dear Sir,

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No. 67
Procurement and Maintenance of Fire Services Equipment

Thank you for your captioned letter dated 19 December 2016 to the Director of Electrical and Mechanical Services. Attached please find our responses as per Appendix.

Should you require further information, please feel free to contact the undersigned at 2808 3854 or Mr. Joe NG at 2808 3292.

Yours faithfully



(CHAN Chau Fat)

for Director of Electrical and Mechanical Services

Encl. (Appendix)

- c.c. Secretary for Security (fax no. 2877 0636)
Director of Fire Services (fax no. 2368 9744)
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Director of Marine (fax no. 2850 8810)
Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

For the Electrical and Mechanical Services Department

EMSD Responses:-

1.	Regarding paragraphs 2.25 to 2.27, please advise on the following:
(a)	with effect from July 2016, the Electrical and Mechanical Services Trading Fund ("EMSTF") would provide a more detailed maintenance schedule to the Fire Services Department ("FSD") in advance, with a view to improving service delivery. What are the details? How is it different from the past practices?
Response for (a)	Starting from July 2016, Electrical and Mechanical Services Trading Fund (EMSTF) has been providing a more detailed maintenance schedule to FSD. It lists out which fire station or ambulance depot to be visited in the a.m. session and p.m. session of each day for the maintenance services of digital trunked radio system (DTRS) terminal equipment. In the past, the maintenance schedule only listed out which fire station or ambulance depot would be visited within each 3-month interval for the maintenance services of DTRS terminal equipment.
(b)	with effect from July 2016, the EMSTF maintenance team would provide an outstanding list to FSD for subsequent despatch to the concerned fire/fireboat stations and ambulance depots. EMSTF would follow up with the aforesaid fire/fireboat stations and ambulance depots to carry out the outstanding preventive maintenance. Does this imply that the team will arrange supplementary maintenance services in the future? If so, what are the details? If not, what are the details of the relevant follow-up work and whether supplementary maintenance services will be arranged in the future?
Response for (b)	EMSTF has been providing FSD with an outstanding list of DTRS terminal equipment, for which their preventive maintenance cannot be completed in the first 4 months of every half-yearly maintenance cycle. FSD will arrange these outstanding DTRS terminal equipment for EMSTF maintenance team to conduct supplementary maintenance services to complete within each half-yearly preventive maintenance cycle.

2.	Regarding paragraph 2.28, please advise on the following:
(a)	was the definition of response time set out in details when EMSTF finalized the relevant terms of the contract with Contractor B? Has it assessed whether the contractor possessed adequate professional and rudimentary knowledge to deal with the contents of the contract?
Response for (a)	The definition of Response Time is stated in the maintenance contract between EMSTF and Contractor B. EMSTF appointed contractor from the "List of Approved Suppliers of Materials and Specialist Contractors" of the Development Bureau. All these contractors under the List possess adequate professional and basic knowledge to manage the contract.
(b)	what existing measures could prevent misinterpretation of contract terms from happening again?
Response for (b)	EMSTF has instructed the maintenance contractor to correctly input the fault receiving time, the appointment time, the fault attendance time and the fault completion time for proper calculation of the fault response time and fault rectification time. EMSTF has also introduced sample checking mechanism, which requires the maintenance contractor to provide time-stamp evident of fault attendance and fault clearance of the corrective maintenance services. The fault call summary submitted by the maintenance contractor will also be checked and reviewed weekly. It is found that the maintenance contractor has not misinterpreted the contract terms since the implementation of checking mechanism in September 2016.
(c)	are non-compliant contractors currently subject to any damage claims and penalties? If so, what are the details? If not, will such damage claims and penalties be introduced in the future?
Response for (c)	EMSTF reflects contractors' performance in contractor performance report (CPR) in regular basis. The winning chance in tendering of poorly performed contractors, which receive lower score in the CPR, will

	<p>be affected. Contractors of consistently poor performance may also be temporarily suspended from tendering.</p> <p>EMSTF has reflected the relevant unsatisfactory performances of Contractor B in the 3rd Quarter CPR in 2016.</p>
(d)	<p>what are the details of the non-compliance of corrective maintenance for the Digital Trunked Radio System, including the reasons for and frequency of such non-compliance?</p>
Response for (d)	<p>Regarding the corrective maintenance services, para. 2.28 (a) (iv) of the Director of Audit's Report mentioned that actual compliance level reached 93%. It complies with the service level agreement (SLA) requirement of not less than 90%. The reason of 11 non-compliance cases was relating to the response time exceeding the SLA requirement.</p>
(e)	<p>for cases involving equipment located in the FSD's Headquarters Building, what are the reasons for EMSTF not always keeping records for such cases? Was FSD aware of the details of such cases?</p>
Response for (e)	<p>EMSTF staff are stationed at Fire Services Headquarters Building to provide around-the-clock corrective maintenance services. The response time within 1 hour can be fully complied. EMSTF had not often recorded all the corrective maintenance cases. Nevertheless, EMSTF maintenance team has been properly inputting the fault receiving time, the fault attendance time and the fault completion time in the log book for proper calculation of the fault response time and fault rectification time. The maintenance team leader will also check each corrective maintenance data and properly record the actual corrective maintenance service level.</p>
3.	<p>Regarding paragraph 3.24, has EMSTF subsequently provided supplementary maintenance service to vehicles that missed the maintenance on the scheduled dates with a view to improving maintenance standards?</p>
Response for 3	<p>According to the SLA, EMSTF provides scheduled maintenance for FSD's support vehicles, ranging from 2 rounds (e.g. private cars or medium trucks) to 6</p>

	<p>rounds (e.g. for large motorcycles).</p> <p>EMSTF will inform FSD one month prior to the scheduled maintenance date. EMSTF will also send reminders to FSD for vehicles, which have missed the scheduled maintenance, requesting their release for maintenance. To enhance the preventive maintenance (PM) arrangement of FSD's support vehicles, EMSTF has agreed with FSD that with effect from August 2016, a monthly report listing out the vehicles with deferred PM has been providing to FSD central coordinator for further arrangement.</p> <p>Moreover, EMSTF has agreed with FSD to allocate additional manpower resources for carrying out supplementary inspection services at fire stations for FSD's support vehicles with deferred preventive maintenance. If there is no vehicle safety concern identified in the supplementary inspection, EMSTF will advise FSD that the preventive maintenance can be deferred for a maximum period of 3 months depending on the actual condition of the concerned FSD's support vehicles. After that, the FSD's support vehicle shall have the preventive maintenance completed in EMSTF workshop to ensure its safety and reliability.</p>
4.	<p>According to paragraphs 2.8, 2.10, 2.14, 2.25 to 2.32, 3.26 and 4.8 to 4.11, a number of circumstances show that the relevant departments have problems in respect of tender invitation and the drawing up, understanding and observance of the contracts and requirements concerned. Please advise whether EMSTF currently has sufficient resources to provide suitable training for the relevant staff, and whether EMSTF has adequate number of professional staff with the required expertise to carry out the relevant work. How can the departments concerned alleviate the relevant problems, so as to avoid causing delays to the relevant work due to the aforesaid circumstances, or incurring unnecessary expenditure and affecting the efficiency of work due to mismanagement.</p>
Response for 4	<p>Regarding para. 2.8, 2.10, 2.14, 2.25 to 2.32 and 3.26, EMSTF provides professional advice and monitors the contractor maintenance services for the Third Generation Mobilizing System. EMSTF also provides in-house maintenance services of DTRS terminal equipment and maintenance contract monitoring</p>

services of DTRS infrastructure equipment. In addition, EMSTF is also responsible for the maintenance of FSD support vehicles and fire appliances in the Airport.

EMSTF possesses adequate professional staff and regularly arranges training to enhance their professional & technical knowledge and contract implementation & management skills.

As reflected in the above responses to Questions 1, 2 & 3, EMSTF has implemented a series of improvement measures in the preventive and corrective maintenance services. EMSTF will closely liaise with FSD and enhances communications to meet the SLA requirements.

-End-

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MARINE DEPARTMENT

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(By e-mail only)

3 January 2017

Public Accounts Committee
 Legislative Council
 Legislative Council Complex
 1 Legislative Council Road
 Central
 Hong Kong
 (Attn.: Mr Anthony CHU)

Dear Sir,

Public Accounts Committee
Consideration of Chapter 3 of the Director of Audit's Report No. 67
Procurement and maintenance of fire services equipment

Thank you for your captioned letter dated 19 December 2016 to the Director of Marine which I am authorized to reply. Our response in seriatim in both Chinese and English are set out at Annex.

Should you require further information, please feel free to contact the undersigned at 2307 3600 or Mr M.Y. CHAN, General Manager/Government Dockyard at 2307 3602. Thank you.

Yours faithfully,

(Tony C.S. CHAN)
 for Director of Marine

Encl. (Annex)

同心協力，促進卓越海事服務
We are One in Promoting Excellence in Marine Services

c.c. (By fax only)

Secretary for Security (Fax no.: 2877 0636)

Director of Fire Services (Fax no.: 2368 9744)

Director of Government Logistics (Fax no.: 2116 0183)

Director of Electrical and Mechanical Services (Fax no.: 2882 9042)

Secretary for Financial Services and the Treasury (Fax no.: 2147 5239)

Director of Audit (Fax no.: 2583 9063)

Secretary for Transport and Housing (Attn.: Ms Louisa YAN, fax no.: 2523 0030)

Internal

DD(SD)

同心協力，促進卓越海事服務

We are One in Promoting Excellence in Marine Services

Public Accounts Committee
Questions and Request for Information in respect of
Chapter 3 of the Director of Audit's Report No. 67
Procurement and maintenance of fire services equipment

For the Marine Department

Q1. Regarding paragraphs 4.9 and 4.13, would the Marine Department ("MD") advise whether it is currently facing manpower shortage and details of the shortage? Does MD have plans to increase its spending on the recruitment of relevant professionals, so that in the long run, the manpower pressure of MD can be relieved as soon as possible and the problem of inadequate experienced manpower will not linger on indefinitely?

A1. The two major professional grades of the Marine Department (MD), namely the Surveyor of Ships grade and the Marine Officer grade, have been facing persistent recruitment difficulties and manpower shortage. MD is very concerned about the manpower shortage situation. Apart from conducting civil service recruitment exercises on a continuous basis, MD has implemented stop-gap measures such as revising the entry requirements on the post-qualification working experience and language proficiency for the two professional grades, with a view to recruiting sufficient qualified candidates to fill the vacancies without compromising the professional service standards of the Department. In parallel, an enhanced training programme is devised for the two grades to cope with the revised entry requirements. To ensure that there is sufficient manpower to meet operational needs, qualified professionals have also been identified and recruited to handle related work through the Non-Civil Service Contract (NCSC) Staff Scheme and the Post-retirement Service Contract Scheme. Notwithstanding the above, MD expects manpower will remain tight in view of the wave of retirement in the coming few years, and is actively exploring a long-term strategy to recruit professionals in a more effective way to alleviate the manpower shortage problem.

As far as the Government New Construction Section (GNCS) of the Government Fleet Division is concerned, in order to mitigate the impact of

staff shortage on the procurement of government vessels, MD has recruited NCSC Surveyors of Ships to assist in the related procurement work. Moreover, the Department has been proactive in outsourcing part of the work related to shipbuilding projects to external consultants under the supervision of MD staff so as to further expedite the procurement work. MD will continue to monitor closely the work of GNCS and deploy additional resources when necessary to ensure the procurement of government vessels is conducted in a timely manner.

(Correction of information: The financial commitment for the replacement of Fireboat No. 7 was increased from \$85 million (instead of \$13.3 million as mentioned in Q1. in Chinese version) to \$98.3 million.)

- Q2. Regarding paragraph 4.10, please advise on the number of government vessel procurement projects with similar delays. Please provide a breakdown by department.
- A2. Procurement of new vessels involves complicated procedures which include design of new vessels, conduct of feasibility studies, seeking of funding approval, procurement and tendering, supervision and trial runs during the shipbuilding stage, etc. The whole process of procurement of new vessels would generally take three to five years to complete. During this process, there is also a certain degree of complexity and uncertainty in the tender exercise and management of shipbuilding contracts. After an internal review of the procedures for the procurement of government vessels, MD has implemented a series of improvement measures such as outsourcing some of the work involved in the replacement and procurement of vessels to expedite the process. The outsourcing work includes conducting market research on the estimated costs of vessels, carrying out feasibility study on the design of vessels, conducting research on the suitability of functions to be incorporated in the vessels, preparing conceptual design and technical specifications for tender documents, etc. Following the implementation of these measures, tender invitations for the two speedboats and Fireboat No. 7 of the Fire Services Department (FSD) were issued in September and October 2016 respectively. To date, the tender exercise for the two speedboats is in the tender evaluation stage, while the tender invitation for Fireboat No. 7 will close on 7 April 2017.

There have been similar delays in the procurement of vessels for other departments. However, after MD has recruited NCSC staff for the GNCS and implemented the above-mentioned improvement measures, the overall procurement process has been expedited. The details and progress of the projects concerned are as follows:

Department	Project	Progress
Agriculture, Fisheries and Conservation Department	Procurement of one patrol vessel	The contract will be awarded soon
Correctional Services Department	Replacement of the departmental launch “Seaward”	Tender exercise is in progress
Customs and Excise Department	Replacement of one high-speed pursuit craft (CE16)	Tender exercise is in progress
Hong Kong Police Force	Acquisition of three rigid hull inflatable boats for the Maritime Counter Terrorism Section of the Special Duties Unit	Pre-tender work is in progress and the invitation to tender is expected to be issued in the first quarter of 2017
	Replacement of eight fast pursuit crafts for the Small Boat Division of the Marine Region	
	Replacement of five high-speed interceptor crafts for the Marine Region	
Immigration Department	Replacement of Immigration Launch No. 6	The shipbuilding contract was awarded in June 2016. Shipbuilding is in progress and is expected to be completed in August 2017

Department	Project	Progress
Marine Department	Replacement of patrol launches “Marine 113” and “Marine 116”	The shipbuilding contract was awarded in March 2016. Shipbuilding is in progress and is expected to be completed in March 2017
	Replacement of four patrol launches	The shipbuilding contract was awarded in June 2016. Shipbuilding is in progress and is expected to be completed in November 2017
	Replacement of hydrographic survey launch “Hydro 1”	Tender evaluation is in progress

- Q3. According to paragraphs 4.11, MD had also taken actions to outsource some of its pre-tender work and project management work to external consultants. Please advise whether such outsourcing arrangements are effective in clearing the backlog? Has MD considered taking further actions to expedite the vessel procurement projects? According to paragraphs 4.14, a total of 13 fire-fighting and rescue vessels are to be replaced/procured in the coming years. Can MD, as the designated endorsement authority and agent for procurement of government vessels, confirm that it is able to cope with the Fire Services Department's vessel replacement/procurement plan in a timely manner? If not, what contingency measures will MD take?
- A3. After the implementation of a series of improvement measures (see the response in A1. and A2. above), the overall progress of shipbuilding projects has improved. MD has also streamlined the workflow to expedite the procurement of vessels, including combining the procurement projects of vessels of the same type to reduce related tendering work. In addition, MD will continue to proactively recruit professionals in the related field via various feasible channels to strengthen the manpower of GNCS, with a view

to further expediting the progress of all vessel procurement projects.

Regarding the 10-year vessel procurement plan of FSD, MD and FSD have so far held three meetings to discuss in detail the procurement intention of FSD. Following an assessment of the existing conditions of all FSD vessels, consensus has been reached on a preliminary vessel replacement sequence and shipbuilding timetable. In future, both sides will liaise closely to monitor the progress of the vessel procurement projects.

- End -

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3 January 2017

Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

(Attn: Mr. Anthony CHU)

Dear Sirs,

**Public Account Committee
Consideration of Chapter 4 of the Director of Audit's Report No. 67**

Management of abandoned construction and demolition materials

In response to your letter dated 19 December 2016, the Administration would like to provide the requested information as enclosed for Members' reference.

Yours faithfully,

(FONG Kin-wa)

for Director of Environmental Protection

Encl.

c.c. Director of Civil Engineering and Development (fax no. 2246 8708)
Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

**Public Accounts Committee
Questions and Request for Information in respect of
Chapter 4 of the Director of Audit's Report No. 67
Management of abandoned construction and demolition materials**

For the Environmental Protection Department ("EPD")

Part 2: Construction Waste Disposal Charging Scheme

1. The Administration is requested to explain why the situation in paragraph 2.10 of the Audit Report occurred. Whether the Administration will review and adjust the levels of charges under the Construction Waste Disposal Charging Scheme ("the charging scheme") on a regular basis, so as to ensure that the levels of charges will conform with the user-pay principle, as well as the principle of full recovery of the capital and recurrent costs of the facilities deployed for disposal of abandoned construction and demolition ("C&D") materials in future?

Reply:

Following the implementation of the Construction Waste Disposal Charging Scheme in 2006, we have been monitoring its overall implementation situation. We have also examined the charging level. Yet, in view of a host of considerations (including the Government's overall moratorium on fees and charges for public services from 2008 to 2010, and the prevailing developments of the scheme for the delivery of surplus fill for reuse in the Mainland which has left the costs of the disposal scheme to be determined), we have not proposed any fee revision. Subsequently, the Environment Bureau published in May 2013 the "Hong Kong Blueprint for Sustainable Use of Resources 2013 – 2022", which indicated the charging level will be adjusted according to a review scheduled to be completed by 2015. We have completed the review in accordance with the said timetable and the new charges will come into effect, pursuant to the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Amendment of Schedules) Notice 2016, on 7 April 2017.

Looking ahead, we will conduct fees and charges review in accordance with Financial Circular No. 6/2016 on an annual basis. In conducting the reviews, apart from the user-pay and the full cost recovery principles, we will also take into account such factors including the effectiveness of the charges in reducing waste, environmental considerations, as well as impact on the trade and other relevant stakeholders.

2. Whether the Administration agrees that its failure to review and adjust the levels of

charges under the charging scheme in the past decade and under-recovery of cost has reduced the effectiveness of the charging scheme?

Reply:

Following the implementation of the Construction Waste Disposal Charging Scheme in 2006, the quantity of construction waste disposed of at landfills has been substantially reduced¹ and maintained at a relatively low level as compared with the situation before the implementation of the scheme. This shows that the scheme is effective in reducing waste.

As we have pointed out in our proposal on increasing construction waste disposal charges submitted to the Legislative Council in early 2016, the generation of construction waste from construction work is to some extent inevitable. Once waste reduction measures in a project have reached certain level, the marginal effect on waste reduction attributable to increase in disposal charges will be reduced. In fact, the increase in the disposal of construction waste in recent years is mainly due to the significant growth in construction works. Nevertheless, we agree that the charging level should be reviewed regularly so as to ensure that the charges can effectively encourage waste reduction.

3. As shown in paragraph 2.38, whether the Director of Environmental Protection will lay down rules or specific guidelines governing the adjustment of the levels of charges under the charging scheme when reviewing these levels of charges, with a view to adjusting the levels of charges in line with the costs more effectively in future, such as making an annual review on the levels of charges a mandatory requirement? Whether the Administration has already had a direction in mind at the present stage on how to fulfil the principle of full recovery of costs?

Reply:

After the new charges have come into effect on 7 April 2017, the levels of landfill charge and public fill charge will be able to achieve full cost recovery, whereas the sorting charge is lower than the landfill charge (with the differential maintained at \$25), so as to attract the use of sorting facilities by waste producers. Hence the cost recovery rate of sorting charge is correspondingly at 66%.

¹ The implementation of Construction Waste Disposal Charging Scheme has significantly alleviated the pressure on our landfills. Before implementing the charges, the three-year average of construction waste disposed of at landfills stood at 6,600 tonnes per day, whereas after implementation of the charges, it has reduced to some 3,200 tonnes per day; the three-year average for 2013-2015 has maintained at about 3,200 tonnes per day.

Looking ahead, we will conduct fees and charges review in accordance with Financial Circular No. 6/2016 on an annual basis. In conducting the reviews, apart from the user-pay and the full cost recovery principles, we will also take into account such factors including the effectiveness of the charges in reducing waste, environmental considerations, as well as impact on the trade and other relevant stakeholders.

4. Regarding the situation described in paragraph 2.21 of the Audit Report, whether the Administration agrees that the lack of annual review of the charge rates from 2007 to October 2014 was at variance with the requirement set out in Financial Circular No. 6/2006 on Fees and Charges; if so, what measure(s) will be taken by the Administration to ensure that it will act in accordance with the requirement set out in the aforesaid circular in the future?

Reply:

Please refer to the reply to question (1) above.

5. Regarding the circumstances described in paragraph 2.28 of the Audit Report, where applicants have failed to meet the 21-day requirement with regard to the establishment of billing accounts ("the 21-day requirement"), whether EPD has any specific guidelines or procedures in place for follow up actions/prosecution to be taken/instituted? If it has, of the criteria adopted by EPD for determining whether or not prosecution will be instituted against the applicants who have failed to meet the 21-day requirement; and whether details of such criteria have been made available to the public and internally within EPD? Whether EPD staff members have failed to observe such guidelines, resulting in prosecution not instituted against a number of cases of non-compliance with the 21-day requirement? After the award of a works contract with a value of \$1 million or above to a contractor and the passage of the 21-day requirement, why have EPD staff not taken immediate follow-up actions against cases involving non-compliance with the 21-day requirement? Whether any such delay was due to negligence or maladministration on the part of EPD, or deliberate procrastination on the part of the applicants? Given the large number of cases in which no prosecution has been instituted, whether EPD has examined if loopholes exist in any such guidelines, which have been used by applicants for late payment of charges; if not, whether EPD has taken immediate actions to examine matters relating to issuance of specific guidelines in accordance with the recommendation made by the Audit Commission in paragraph 2.29 of the Audit Report?

Reply:

When considering prosecution actions against non-compliant contractors who could not establish billing account within 21 days after being awarded the contract, EPD staff have been relying on (i) “The Statement of Prosecution Policy for the EPD” which sets out generic guidance and principles; and (ii) in-house advice from the Central Prosecution Unit (CPU) of EPD which is based on the merits of each case. The prosecution policy mentioned in (i) has been uploaded to the EPD’s website (http://www.epd.gov.hk/epd/english/news_events/current_issue/current_policy.html) for public reference.

Under section 9(1) of the Waste Disposal (Charges for Disposal of Construction Waste) Regulation, Cap 354N (the “Regulation”), a main contractor who undertakes construction works with a value of \$1,000,000 or above under a contract that has been awarded on or after the commencement of this section shall, within 21 days after being awarded the contract, makes an application to the Director of Environmental Protection to establish a billing account solely in respect of that contract. A main contractor who, without reasonable excuse, fails to comply with the above Regulation commits an offence.

For cases where contractors who could not establish billing account within 21 days after being awarded the contract, EPD staff have conducted immediate follow up investigation upon discovery of such cases in accordance with the above guidelines. In general, we will ensure that prosecution actions are taken within six months. If it is confirmed that the contractor has reasonable excuse (e.g. no construction waste generated from the works, postage delay), we will follow the Prosecution Policy and consider not taking prosecution action having regard to the merits of each case. For the specific case where an application was submitted 2,127 days after award of contract, the works contract was awarded before the implementation of the Construction Waste Disposal Charging Scheme on 1 December 2005 and thus was an “exemption account”. Hence, EPD had not taken prosecution.

We agree with Audit’s recommendations on enhancing our enforcement practice. We are consolidating previous case examples and will issue specific guidelines for reference and adoption by enforcement staff. The specific guidelines will list out the factors to be considered under different scenarios, the procedures to be followed including consulting CPU’s views and analysis of previous cases.

Part 3: Measures to increase reuse of fill materials

6. According to Table 5 in paragraph 3.9 of the Audit Report, only 20%, 14%, 29% and 31% fill materials were recovered from abandoned C&D materials in year 2009, 2010, 2014 and 2015 respectively, a long way off meeting the inert-content requirement (i.e. containing more than 50% of fill materials by weight) described in paragraph 1.4(c) of the Audit Report. The Administration is requested to explain the reasons for that, and what measures will be taken to ensure that fill materials recovered from abandoned C&D materials will meet the inert-content requirement.

Reply:

During sorting, inevitably a certain portion of inert content (fill material) of the abandoned C&D materials cannot be sorted out due to contamination (e.g. sanitary ware and steel being bound to concrete). Such contaminated abandoned C&D materials would have to be disposed of at landfills. As mentioned in paragraph 3.12(a) of the Audit report, the actual quantity of fill materials that could be sorted from abandoned C&D materials would generally be lower than the inert content of the abandoned C&D materials accepted for disposal at sorting facilities.

Regular samplings of vehicle loads and sorted materials have been carried out by EPD & CEDD at the sorting facilities to ascertain whether the vehicle loads comply with the inert content requirement and to monitor the efficiency of the sorting process. The latest inert content survey completed in October 2016 revealed that the percentage of vehicle loads meeting the inert content requirement (contains more than 50% by weight) at sorting facilities was about 70%. Besides, according to CEDD's investigation, for vehicle loads complying with the inert content requirement for acceptance at sorting facilities, about 85% of fill materials can be recovered by the sorting process. EPD will continue to work with CEDD to closely monitor the effectiveness of the screening methodology at the sorting facilities.

Part 4: Measures to prevent and detect illegal dumping

7. Based on the figures provided in paragraph 4.8 of the Audit Report, does the Administration admit that it has failed to take pro-active follow-up actions for prevention and detection of illegal dumping of C&D materials? Among the figures given in paragraph 4.18 concerning the number of prosecutions, whether there are any cases of repeated offences? How the existing system could address the situation effectively?

Reply:

The Government has been attaching great importance to taking enforcement actions against these illegal land filling and fly-tipping activities. Nevertheless, tackling these illegal activities has been challenging, since these activities are mostly conducted at inconspicuous locations or at odd hours. Although the total quantity of C&D waste fly-tipped has been controlled to less than 0.05% of the total generation of C&D materials, we will continue to explore new measures to enhance enforcement effectiveness. Some of the enhanced measures include: (1) implement a prior notification mechanism under the Waste Disposal (Amendment) Ordinance 2013 since 4 August 2014 (That means a person is required to obtain the written permission of the relevant landowners and acknowledged by EPD with notification to relevant departments for follow-up actions, prior to the intended date of the deposition of C&D waste on private land); (2) establish an inter-departmental coordination mechanism; (3) launched a trial scheme of setting up surveillance camera system to combat illegal dumping activities; (4) examine the feasibility of adopting Global Positioning System (GPS) at C&D waste collection vehicles; and (5) adopt trip ticket system in public works projects to help track the movement of C&D waste generated.

There were a few repeated offence cases included in the prosecution figures described in paragraph 4.18 of the Audit Report. Subject to the availability of resources, the Government plans to install an enhanced surveillance camera system at the serious hotspots, as well as to step up the frontline enforcement action with targeted covert operations to enhance the deterrent effect. We understand that the court will consider all relevant factors (such as the nature or seriousness of the offences, whether it is repeated offence and the impacts on the environment, etc.) of individual cases before sentencing. It is probable that the court may impose heavier penalties to those repeated offenders.

8. EPD is requested to advise on the progress in implementing the recommendations as set out in paragraph 4.13 of the Audit Report.

Reply:

The Environmental Protection Department and the Development Bureau have started discussion with major public organisations so as to encourage them to adopt a similar trip-ticket system in their suitable works projects, which would help improve the management of construction and demolition materials generated from these projects.

9. It has been mentioned in paragraph 4.20 of the Audit Report that there were nearly 80 cases where prosecution actions were not taken due to the fact that images of registration marks of the related vehicles captured by the cameras were unclear, EPD is requested to explain the reasons for that, including whether the reliability of the trial surveillance camera system in combating illegal dumping is questionable. Regarding the response given by EPD in paragraph 4.34, is EPD of the view that enhancing the technical specifications of the surveillance camera systems will necessarily improve the current situation, or is there any other measure(s) that could improve the situation more effectively? What are the technical specifications of the existing cameras?

Reply:

There were some cases that prosecution actions could not be taken, as the vehicle registration marks of the vehicles concerned could not be clearly captured by the surveillance cameras used in the trial scheme. These were mainly attributed to poor lighting conditions at the site locations; technical specification of the surveillance cameras; the shooting range and distance (in particular for night operation with dim or no street lighting); and the vehicles were in motion thus affecting the quality of the image being captured.

EPD is now conducting an overall review of the experience gained and the issues identified from the trial scheme. It is aimed to improve the design and operation of the surveillance camera system which will be adopted as one of the tools for the detection and prevention of illegal dumping of C&D waste. While the review is still on-going, our preliminary observation is that surveillance cameras should help to enhance enforcement effectiveness against fly-tipping by vehicles as well as strengthen the deterrent effect at the hotspot. Relevant government departments will continue to deploy different means to tackle illegal dumping activities.

Technical specifications of the two sets of surveillance camera system used during the trial scheme are listed below:

1. Provide 1080p (1920 x 1080 resolution) full HD video, image sensor (2.0 Mega pixel) and wide angle lens (120 degree); and
 2. Provide 720p (1280 x 720 resolution) HD video, image sensor (1280 x 960 resolution) and wide angle lens (160 degree).
10. Does EPD agree that follow-up actions should be taken in respect of the 14 cases mentioned in paragraph 4.22 of the Audit Report, where prosecution actions were not taken as the vehicle owners could not be contacted? What measure(s) will be taken by

EPD to improve the situation?

Reply:

According to the Road Traffic Ordinance (Cap. 374), a vehicle owner is required to notify the Transport Department (TD) within 72 hours of change of address. EPD had already forwarded all the cases with letters previously sent to the addresses provided by TD and returned unclaimed in the trial scheme to the TD for their follow up.

We agreed with the Audit's recommendations. For similar cases in the future, apart from liaising with the TD, we will also approach other government departments (e.g Immigration Department, etc.) to review whether the registered vehicle owners had other alternative correspondence addresses. We will also include this procedure in our revised enforcement guidelines for fly-tipping control.

11. Whether EPD agrees that follow-up actions should be taken in respect of the 19 cases and the 4 cases respectively mentioned in paragraphs 4.26 and 4.31 of the Audit Report? What measure(s) will be taken by EPD to improve the situation?

Reply:

In the trial scheme, EPD could not take prosecution actions due to insufficient evidence in ascertaining the identity of the offenders during investigation, including vehicle owners, drivers, or clients of the hired vehicles. EPD is now seeking legal advice from the Department of Justice on these cases and will continue to follow up on the issues. We will also collaborate with other government departments to share their enforcement experience in order to strengthen our investigation and enforcement efforts.

12. Whether EPD has studied how, in future, to solve the problem as mentioned in paragraph 4.27 of the Audit Report that the vehicle owner could not recognise the drivers involved in the cases as shown in the video recording and thus no prosecution could be instituted? Does EPD consider the Audit recommendation in paragraph 4.33(d) feasible at this stage? Are there any foreseeable difficulties?

Reply:

In response to Audit's recommendation, we are now seeking legal advice from Department of Justice. We have also liaised with the Hong Kong Police Force to

share their enforcement approach and experience with a view to resolve the problems encountered, so as to strengthen our investigation and enforcement efforts.

13. Whether EPD agrees that the cases mentioned in paragraph 4.30 of the Audit Report should be followed up? What measures will be taken by the Department to improve the situation?

Reply:

For the cases where the drivers claimed that the waste dumping was conducted on the advice of Food and Environmental Hygiene Department (FEHD)'s staff or contractors at the refuse collection points, EPD will notify the FEHD in a timely manner for checking and taking follow-up actions with their staff or contractors in future. We are now following-up with FEHD to strengthen collaboration in combating fly-tipping activities in the vicinity of the refuse collection points and will also review the relevant enforcement guidelines.

Part 5: Way forward

14. According to Appendix A to the Audit Report, whether the Government has, at this stage, tried to get an idea of Taishan's demand for fill materials in the next five years? How will the Administration deal with the situation in case Taishan does not need fill materials anymore? As there will still be a number of urban redevelopment plans to be undertaken in Hong Kong in the next few years, whether the Administration has assessed the total quantity of construction and demolition materials as well as its impact on the charge rates?

Reply:

Reducing the generation of fill materials locally and facilitating local reuse of fill materials are amongst the priorities in our waste management strategy. At present, major public works projects, including the infrastructural projects undertaken by the public organisations, are required to draw up Construction and Demolition Material Management Plans. The Plans would have to assess the volume of construction and demolition materials produced, and to identify outlets for beneficial reuse and recycling of any surplus excavated materials. The Public Fill Committee chaired by the Director of Civil Engineering and Development also oversees the coordination of major capital works projects undertaken by the works departments and major public organisations to promote the local reuse of fill materials. Over the next few years, it is expected that a

number of fill-absorbing projects will commence and will ease the need for delivery of fill materials to the Mainland. As regards the charging level, we will conduct fees and charges review in accordance with Financial Circular No. 6/2016 on an annual basis. In conducting the reviews, apart from the user-pay and the full cost recovery principles, we will also take into account such factors including the effectiveness of the charges in reducing waste, environmental considerations, as well as impact on the trade and other relevant stakeholders.

15. What is the progress of the follow-up actions taken by the Secretary for the Environment and the Director of Civil Engineering and Development in respect of the recommendation in paragraph 5.10? Whether the Government has any relevant statistics or target cities in mind at present? If target places are quite far away from Hong Kong, has EPD conducted a preliminary assessment of the impact on the charge rates?

Reply:

We have all along conducted annual joint liaison meetings with the relevant Mainland authorities at the senior level regarding the surplus public fill delivery scheme to examine the actual operation of the delivery of fill materials to Taishan, delivery arrangements in the coming year, as well as long term planning including the exploration of other suitable receptor sites. On the other hand, the availability of a suitable receptor site depends on the needs of the relevant Mainland authorities and involves a host of relevant factors (such as technical feasibility and planning). Once the relevant delivery costs and expenses are known, we will conduct fees and charges review in accordance with Financial Circular No. 6/2016 on an annual basis. In conducting the reviews, apart from the user-pay and the full cost recovery principles, we will also take into account such factors including the effectiveness of the charges in reducing waste, environmental considerations, as well as impact on the trade and other relevant stakeholders.



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3 January 2017

Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

(Attn: Mr. Anthony CHU)

Dear Sirs,

**Public Account Committee
Consideration of Chapter 4 of the Director of Audit's Report No. 67**

Management of abandoned construction and demolition materials

In response to your letter dated 19 December 2016, the Administration would like to provide the requested information for Members' reference.

Yours faithfully,

(Peter P C MOK)

for Director of Civil Engineering and Development

Encl.

c.c. Director of Environmental Protection (fax no. 2872 0376)
Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

**Public Accounts Committee
Questions and Request for Information in respect of
Chapter 4 of the Director of Audit's Report No. 67
Management of abandoned construction and demolition materials**

Reply from Civil Engineering and Development Department

Part 2 : Construction Waste Disposal Charging Scheme

1. The Administration is requested to explain why the situation mentioned in paragraph 2.10 of the Audit Report occurred. Whether the Administration will review and adjust the levels of charges under the charging scheme on a regular basis to ensure that the levels of charges will conform with the principles of user pay and full recovery of the capital and recurrent costs of the facilities deployed for disposal of abandoned C&D materials in the future?

Reply :

Following the implementation of the Construction Waste Disposal Charging Scheme in 2006, we have been monitoring its overall implementation situation. We have also examined the charging level. Yet, in view of a host of considerations (including the Government's overall moratorium on fees and charges for public services from 2008 to 2010, and the prevailing developments of the scheme for the delivery of surplus fill for reuse in the Mainland which has left the costs of the disposal scheme to be determined), we have not proposed any fee revision. Subsequently, the Environment Bureau published in May 2013 the "Hong Kong Blueprint for Sustainable Use of Resources 2013 – 2022", which indicated the charging level will be adjusted according to a review scheduled to be completed by 2015. We have completed the review in accordance with the said timetable and the new charges will come into effect, pursuant to the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Amendment of Schedules) Notice 2016, on 7 April 2017.

Looking ahead, we will conduct fees and charges review in accordance with Financial Circular No. 6/2016 on an annual basis. In conducting the reviews, apart from the user-pay and the full cost recovery principles, we

will also take into account such factors including the effectiveness of the charges in reducing waste, environmental considerations, as well as impact on the trade and other relevant stakeholders.

2. Whether the Administration agrees that its failure to review and adjust the charge rates under the charging scheme in the past decade and under-recovery of cost has reduced the effectiveness of the charging scheme?

Reply :

Following the implementation of the Construction Waste Disposal Charging Scheme in 2006, the quantity of construction waste disposed of at landfills has been substantially reduced¹ and maintained at a relatively low level as compared with the situation before the implementation of the scheme. This shows that the scheme is effective in reducing waste.

As the Environment Bureau/Environmental Protection Department (EPD) have pointed out in their proposal on increasing construction waste disposal charges submitted to the Legislative Council in early 2016, the generation of construction waste from construction work is to some extent inevitable. Once waste reduction measures in a project have reached certain level, the marginal effect on waste reduction attributable to increase in disposal charges will be reduced. In fact, the increase in the disposal of construction waste in recent years is mainly due to the significant growth in construction works. Nevertheless, we agree that the charging level should be reviewed regularly so as to ensure that the charges can effectively encourage waste reduction.

3. Regarding the situation described in paragraph 2.21 of the Audit Report, whether the Administration agrees that its failure to conduct the lack of annual review of the charge rates from 2007 to October 2014 was at variance with the requirement set out in Financial Circular No. 6/2006 on

¹ The implementation of Construction Waste Disposal Charging Scheme has significantly alleviated the pressure on the landfills. Before implementing the charges, the three-year average of construction waste disposed of at landfills stood at 6,600 tonnes per day, whereas after implementation of the charges, it has reduced to some 3,200 tonnes per day; the three-year average for 2013-2015 has maintained at about 3,200 tonnes per day.

Fees and Charges; if so, what measures will be taken by the Administration to ensure that it will act in accordance with the requirement set out in the aforesaid circular in the future?

Reply :

Please refer to the reply to question (1) above.

Part 3 : Measures to increase reuse of fill materials

4. As shown in Table 5 in paragraph 3.9 of the Audit Report, only 20%, 14%, 29% and 31% of fill materials were recovered from abandoned C&D materials in 2009, 2010, 2014 and 2015 respectively, a long way off meeting the inert-content requirement mentioned in paragraph 1.4(c) of the Audit Report. The Administration is requested to explain the reasons for that and what measures will be taken to ensure that fill materials recovered from abandoned C&D materials will meet the inert-content requirement?

Reply :

During sorting, inevitably a certain portion of inert content (fill material) of the abandoned C&D materials cannot be sorted out due to contamination (e.g. sanitary ware and steel being bound to concrete). Such contaminated abandoned C&D materials would have to be disposed of at landfills. As mentioned in paragraph 3.12(a) of the Audit report, the actual quantity of fill materials that could be sorted from abandoned C&D materials would generally be lower than the inert content of the abandoned C&D materials accepted for disposal at sorting facilities.

Regular samplings of vehicle loads and sorted materials have been carried out by the Civil Engineering and Development Department (CEDD) and EPD at the sorting facilities to ascertain whether the vehicle loads comply with the inert content requirement and to monitor the efficiency of the sorting process. The latest inert content survey completed in October 2016 revealed that the percentage of vehicle loads meeting the inert content requirement (contains more than 50% by weight) at sorting facilities was

about 70%. Besides, according to CEDD's investigation, for vehicle loads complying with the inert content requirement for acceptance at sorting facilities, about 85% of fill materials can be recovered by the sorting process. CEDD will continue to work with EPD to closely monitor the effectiveness of the screening methodology at the sorting facilities.

Part 5 : Way forward

5. As shown in paragraph 5.8 of the Audit Report, high delivery cost is involved in exporting fill materials outside Hong Kong. Please provide details about the delivery cost for the past three years.

Reply :

Between 2013-14 and 2015-16, the estimates of expenditure of the CEDD in public fill management are \$750 million, \$887 million and \$944 million respectively, which mainly includes the operation and maintenance costs of public fill reception facilities, costs for the delivery of public fill to the Mainland disposal site and supply to local projects for reuse, the associated staff costs and administrative expenses as well as provision of necessary facilities for disposal of fill material at the disposal site. The CEDD does not maintain separate cost breakdown for the delivery service to Taishan.

6. According to Appendix A to the Audit Report, whether the Administration has, at the present stage, tried to get an idea of Taishan's demand for fill materials in the next five years? How will the Administration deal with the situation in case Taishan does not need fill materials anymore? As there will still be a number of urban redevelopment projects to be undertaken in Hong Kong in the next few years, whether the Administration has assessed the total quantity of C&D materials and the impact on the charge rates?

Reply :

Reducing the generation of fill materials locally and facilitating local

reuse of fill materials are amongst the priorities in our waste management strategy. At present, major public works projects, including the infrastructural projects undertaken by the public organisations, are required to draw up Construction and Demolition Material Management Plans. The Plans would have to assess the volume of construction and demolition materials produced, and to identify outlets for beneficial reuse and recycling of any surplus excavated materials. The Public Fill Committee chaired by the Director of Civil Engineering and Development also oversees the coordination of major capital works projects undertaken by the works departments and major public organisations to promote the local reuse of fill materials. Over the next few years, it is expected that a number of fill-absorbing projects will commence and will ease the need for delivery of fill materials to the Mainland. As regards the charging level, we will conduct fees and charges review in accordance with Financial Circular No. 6/2016 on an annual basis. In conducting the reviews, apart from the user-pay and the full cost recovery principles, we will also take into account such factors including the effectiveness of the charges in reducing waste, environmental considerations, as well as impact on the trade and other relevant stakeholders.

7. What is the progress of follow-up actions taken by the Secretary for the Environment and the Director of Civil Engineering and Development in respect of the recommendation in paragraph 5.10? Whether the Government has any relevant statistics or target cities in mind at present? If target places are quite far away from Hong Kong, whether EPD has conducted a preliminary assessment of the impact on the charge rates?

Reply :

We have all along conducted annual joint liaison meetings with the relevant Mainland authorities at the senior level regarding the surplus public fill delivery scheme to examine the actual operation of the delivery of fill materials to Taishan, delivery arrangements in the coming year, as well as long term planning including the exploration of other suitable receptor sites. On the other hand, the availability of a suitable receptor site depends on the needs of the relevant Mainland authorities and involves a host of relevant factors (such as technical feasibility and planning). Once the relevant delivery costs and expenses are known, we will conduct fees

and charges review in accordance with Financial Circular No. 6/2016 on an annual basis. In conducting the reviews, apart from the user-pay and the full cost recovery principles, we will also take into account such factors including the effectiveness of the charges in reducing waste, environmental considerations, as well as impact on the trade and other relevant stakeholders.



中華人民共和國香港特別行政區政府總部食物及衛生局
Food and Health Bureau, Government Secretariat
The Government of the Hong Kong Special Administrative Region
The People's Republic of China

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11 January 2017

Mr Anthony Chu
Clerk to Legislative Council Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong
(Fax No. : 2543 9197)

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 5 of the Director of Audit's Report No. 67
Hospital Authority's Drug Management

Thank you for your letter of 20 December 2016 on the above subject.

We provide at Annex a coordinated response to your questions raised for the Public Accounts Committee on issues related to the Food and Health Bureau, Hospital Authority and Department of Health. The Management Manual of the Hospital Authority Drug Formulary is also enclosed for reference.

Yours sincerely,

(Charvis Li)

for Secretary for Food and Health

***Note by Clerk, PAC: Please refer to Hospital Authority Website for the Management Manual of the Hospital Authority Drug Formulary.**

**Coordinated Responses to PAC's Questions on
Chapter 5 of the Director of Audit's Report No. 67
Hospital Authority's drug management**

For the Hospital Authority ("HA")

- 1) Regarding the situation mentioned in paragraph 2.10 of the Audit Report, can HA inform this Committee:
 - a) of a breakdown of the unregistered drugs used in all specialist clinics and general outpatient clinics;
 - b) why unregistered drugs can be used in Hong Kong;
 - c) whether HA has overseen the corporate-wide use of unregistered drugs; if so, of the details; if not, the reasons for that;
 - d) whether HA or its healthcare staff have to bear the risk of being held responsible for the use of unregistered drugs, if any; if so, of the details; and
 - e) of the criteria for incorporating drugs into HADF?

- a) As at April 2016, the number of unregistered drugs in use in the seven clusters under the management of the Hospital Authority ("HA") is set out below:

Cluster	Number of Unregistered Drugs in Use
Hong Kong East	133
Hong Kong West	197
Kowloon Central	162
Kowloon East	125
Kowloon West	165
New Territories East	171
New Territories West	138

- b) Not every clinical condition has a corresponding registered drug readily available for treatment in Hong Kong. Clinicians may need to prescribe unregistered drugs based on their clinical expertise and professional judgment, taking into consideration the clinical conditions of individual

patients. When a specific patient demonstrates a clinical need, clinicians may follow the established mechanism to apply for the approval of the Department of Health for use of unregistered drugs in Hong Kong.

- c) It is HA's established policy that only new drug entities and new indications registered in Hong Kong would be considered for listing in the HA Drug Formulary ("HADF"). However, clinicians may need to prescribe unregistered drugs based on their clinical expertise and professional judgment, taking into consideration the clinical conditions of individual patients. The use of non-HADF drugs (including unregistered drugs) is an integral part of medical care catering for the clinical needs of individual patients in exceptional situations. The inclusion of non-HADF drugs in HA's drug policy is to bridge the gap between population and individual needs and to manage urgent situations to ensure that patients are provided with appropriate clinical care. There are established mechanism and procedures in place in respect of the application and endorsement for use of unregistered drugs in HA.

If an unregistered drug is required for use on a specific patient, the concerned clinician must obtain prior endorsement of the Cluster / Hospital Drug & Therapeutic Committee ("DTC") via the Chief of Service before the procurement procedure can be initiated. The HA Head Office ("HAHO") would evaluate the request and, subject to the approval of the Department of Health for importation, individual hospitals can place order for the concerned unregistered drug.

- d) HA clinicians would ensure that the prescribed drugs are clinically safe and appropriate for use on patients. Under the established mechanism for use of unregistered drugs, the concerned clinicians must obtain prior endorsement from the Cluster / Hospital DTC via the Chief of Service. The use of unregistered drugs, where necessary, is an integral part of medical care catering for the clinical needs of individual patients in exceptional situations. As a whole, HA would take on full responsibility for provision of care for all its patients.
- e) HA embarked on developing the HADF in 2003 along the core values of evidence-based medical practice, rational use of public resources, targeted subsidy, opportunity cost consideration and facilitation of patients' choice. HA follows an evidence-based approach in evaluating new drugs for listing

on the HADF, having regard to the three principal considerations of safety, efficacy and cost-effectiveness while taking into account other relevant factors, including international recommendations and practices, advance in technology, disease state, patient compliance, quality of life, actual experience in the use of drugs as well as views of professionals and patient groups. These considerations are described in the HADF Management Manual which was promulgated to all internal and external stakeholders upon its publication in July 2015 and has since been available in HA's internet website for public reference.

- 2) Has HA explained the drug policy mentioned in paragraph 2.10(b) to the public and the Legislative Council? What measures HA has put in place to ensure that individual patients attending different public hospitals and clinics have equitable access to non-HADF drugs when they have clinical needs?

There is an established mechanism for use of non-HADF drugs (including unregistered drugs) on specific patients in HA. Under this mechanism, a hospital may, at its discretion, acquire a non-HADF drug that is required for use in emergency / life-threatening situations or specific circumstances through urgent request. When the clinical need is identified for use of non-HADF drugs on a specific patient, the concerned clinician may follow the established procedures to apply for prior endorsement of the Cluster / Hospital DTC via the Chief of Service. HAHO will then evaluate the request before individual hospitals can place order for the concerned non-HADF drug. If an unregistered drug is involved, prior approval from the Department of Health would be obtained before placing the order.

The procedure for use of non-formulary drugs was well promulgated to all clinical units in HA vide an internal memorandum; and a standardised form for requisition of non-HADF drugs has been put into use across all HA institutions since 2006. The use of non-HADF drugs is described in Chapter 3 of the HADF Management Manual, which was promulgated to all internal and external stakeholders upon its publication in July 2015 and has since been available in HA's internet website for public reference.

In response to the audit recommendations, HA will further formulate a detailed guideline on the use of non-HADF drugs to align their application, approval, documentation and monitoring. The existing section on non-HADF drugs in the HADF Management Manual will also be expanded into a new chapter in the

next revised version.

- 3) Can HA inform this Committee of the timetable for and progress of setting up the mechanism mentioned in paragraph 2.29(b)? Since there is an increase in the use of non-HADF drug items in public hospitals and clinics, coupled with various factors such as the advance of medical technologies, will the Drug Advisory Committee also set up a mechanism to conduct regular reviews as to whether those drugs which have been rejected from being incorporated into HADF previously may, with the advance of times, fulfil the criteria for being incorporated into HADF?

As mentioned in the preceding reply, the use of non-HADF drugs (including unregistered drugs) is an integral part of medical care catering for the clinical needs of individual patients in exceptional situations. The inclusion of non-HADF drugs in HA's drug policy is to bridge the gap between population and individual needs and to manage urgent situations to ensure that patients are provided with appropriate clinical care.

In response to the audit recommendations, HA will set up a mechanism within the coming 12 months to strengthen the monitoring and analyse the frequency and duration of use of individual non-HADF drugs within and across hospitals. If required, Hospital DTCs will be requested to review if there is a continual need for using certain non-HADF drugs and to consider submitting new drug applications to the HA Drug Advisory Committee for evaluation and listing on the HADF where appropriate.

- 4) Regarding the phrase "the treatment cost in relation to the benefits" in paragraph 2.13(c), can HA explain its meaning?

As stated in Section 3.4 of the HADF Management Manual, HA follows an evidence-based approach in evaluating new drug applications for listing on the HADF, having regard to three principal considerations of safety, efficacy and cost-effectiveness while taking into account other relevant factors, including international recommendations and practices, advance in technology, disease state, patient compliance, quality of life, actual experience in the use of drugs as well as views of professionals and patient groups.

Safety

HA evaluates the safety profile of a new drug by weighing its clinical benefits against its risks, and compares the adverse effect profiles between the new drug and its alternatives. Short and long-term safety profiles and potential for serious adverse effects are also considered with reference to any black box warning, post-marketing surveillance reports and safety alerts issued by overseas health authorities. Special attention would be given to drugs that have potential risks of causing serious harm to patients when used in therapeutic doses or after inadvertent use.

Efficacy

The efficacy of a new drug is compared with that of other existing treatment alternatives in the HADF for the same disease condition where appropriate. Head-to-head, direct comparative randomised trials which offer the highest level of evidence are preferred over indirect comparisons. However, if a treatment alternative is not available, properly designed and conducted indirect comparison using a common comparator in practice or placebo-controlled trial would be adopted in order to quantify the clinical benefits of the new drug. The weighting would follow the normal hierarchy of clinical evidence as advocated by evidence-based medicine.

Regarding the choice of endpoints, clinical trials which measure hard clinically important primary outcome endpoints are preferred over those using surrogate endpoints that only demonstrate strong correlation with the true clinical endpoint. Long-term outcome endpoints are always preferred. If these are not available, the limitation would be taken into account. Other elements of clinical study design that may affect data reliability, significance and relevance of trial results are also considered, such as precautions to minimise bias, randomisation, statistical methodology, trial size, duration of study, generalisability of trial population and relevance to the local target patient population, etc.

Cost Effectiveness

The cost-effectiveness of a new drug is evaluated by assessing its total cost impacts and making reference to related overseas pharmacoeconomic evaluation studies. The total impacts of a new drug on direct healthcare costs, including costs of drug acquisition and administration, treatment-associated in-/out-patient

service utilisation and monitoring of adverse reactions, are taken into account in order to determine whether listing of the new drug on the HADF would be cost saving, cost neutral or would pose a significantly higher cost to HA. The budget impact is assessed in the light of total service needs under the new drug's prescribing criteria and according to the estimated disease incidence / prevalence, cost of drug treatment and associated healthcare costs as opposed to those of existing treatments. The potential cumulative impacts on HA's budget arising from drug initiation for new cases and continuation of treatment for existing patients, together with the opportunity cost of using the new drug, would also be assessed. New drugs having significant budget impacts on HA would be addressed through the annual planning process with a view to soliciting additional funding allocation to list the new drugs on the HADF.

HA also makes reference to pharmacoeconomic evaluation studies in technology assessments conducted by overseas health authorities, in particular those with national reimbursement schemes comparable to the fees and charges for medical services provided by HA in Hong Kong, e.g. the United Kingdom, Australia and some Asian countries. It is well recognised that each healthcare jurisdiction has its unique system and no international studies and recommendations of overseas health authorities can be fully applicable. HA may make reference to local pharmacoeconomic evaluation studies, if available, and may consider commissioning such studies, if required, for evaluation of a new drug.

- 5) It is pointed out in paragraph 2.14 that the Drug Advisory Committee approved HADF drugs that were intended for corporate-wide use for the benefit of the general patient population. In this connection, will the authorities inform this Committee:
- a) whether such practice is an express rule or a customary practice of HA, and of the justifications for so doing; and
 - b) why HA cannot procure a small amount of certain drugs to address the needs of a few patients?
- a) As mentioned in the preamble of the HADF Management Manual (which is a public document accessible in HA's internet website), provision of sustainable and quality public healthcare services for residents of Hong Kong is the overarching mandate of HA. To this end, HA embarked on developing its Drug Formulary in 2003 along the core values of

evidence-based medical practice, rational use of public resources, targeted subsidy, opportunity cost considerations and facilitation of patients' choice. In July 2005, HADF was formally launched and uniform principles of managing the HADF were adopted by all HA institutions. Since then, new drugs of proven safety and efficacy have been introduced and the prevailing list of drugs has been regularly reviewed under the established mechanisms. Patients thus have equitable access to cost-effective drug treatments under the highly subsidised public healthcare system.

In the face of rising and competing demands for providing new drug treatments that vary widely in cost, therapeutic effectiveness, side effects and health outcome, it is imperative for HA, as a publicly-funded organisation, to ensure rational use of limited resources in order to provide adequate medical care and optimise the health benefits for the society.

- b) With reference to the considerations for new drug evaluation for listing on the HADF, as mentioned in Section 3.4.3 of the HADF Management Manual, HA places high emphasis on maximising health benefits for the community while balancing the interests between different patient groups and individuals. For non-HADF drugs, there are established procedures to facilitate their use to cater for individual patient's needs in exceptional situations.
- 6) According to paragraphs 2.20 and 2.21, patients prescribed with non-HADF drugs in different public hospitals and clinics might be charged differently. Can the authorities explain why there is a situation where "the same drugs are charged differently"? And what criteria are used for determining the relevant fees and charges adopted by public hospitals and clinics and who made such decisions? Does HA have plans to enhance its transparency by keeping the public well informed of the relevant fees and charges adopted by various public hospitals and clinics? If HA does not have such plans, what are the reasons? Has HA established the charging principle for non-HADF drugs as mentioned in paragraph 2.29(d)? If HA has done so, what are the details and when will it be implemented? If HA has not done so, what are the implementation timetable and progress?

Clinically it is common that a drug may be indicated for use in more than one disease such that different patients using the same drug may have different underlying clinical conditions. In this connection, the use of drugs on different

patients cannot be compared directly.

HA has issued an internal operations circular setting out the charging policy for use of drugs (including both HADF and non-HADF drugs) in immediate life threatening emergency situations. Under these circumstances, drug treatments will be provided at standard fees and charges. If the use of non-HADF drugs is involved, clinicians will need to follow the established procedures to obtain prior endorsement of the Hospital DTC via the Chief of Service, and recommend if charging is required. The local DTCs would use the operations circular as a reference to guide them to decide on the charging. As mentioned in the audit report, 96.5% of prescriptions involving non-HADF drugs in 2015-16 were provided at standard fees and charges, meaning that the use of non-HADF drugs was essential for treatment in the majority of cases.

In view of the audit recommendations, HA will further elaborate the charging principles within the next 12 months by expanding the existing guideline to cover the general use of non-HADF drugs, taking into consideration whether the use is essential for treatment or patient's choice. Moreover, HA will expand the existing section on non-HADF drugs in the HADF Management Manual into a new chapter in the next revised version.

- 7) What is HA's response to the views of many patients and patient groups that non-HADF drugs are unaffordable by the general public?

HA has implemented the HADF since July 2005 with a view to ensuring equitable access by patients to cost effective drugs of proven safety and efficacy through standardisation of drug policy and drug utilisation in all public hospitals and clinics. At present, there are approximately 1,300 drugs listed on the Drug Formulary which are categorised into the following four groups:

- a) General Drugs – These are drugs with well-established indications and cost-effectiveness which are available for general use as indicated by patients with relevant clinical indications and provided at standard fees and charges in public hospitals and clinics.
- b) Special Drugs – These are drugs used under specific clinical conditions with specific specialist authorisation. Special drugs are provided at standard fees and charges in public hospitals and clinics when prescribed under specific clinical conditions. Patients who do not meet the specified

clinical conditions but choose to use Special drugs are required to pay for the drugs.

- c) Self-financed Items (“SFIs”) with Safety Net – These are drugs which are proven to be of significant clinical benefits but are extremely expensive for HA to provide as part of its standard services. These drugs are not covered by the standard fees and charges in public hospitals and clinics. Patients who require these drugs and can afford the costs have to purchase the drugs at their own expense. A safety net is provided through relevant funds to subsidise the drug expenses of patients who have financial difficulties.
- d) SFIs without Safety Net – These include drugs with preliminary medical evidence only, drugs with marginal benefits over available alternatives but at significant higher costs, and lifestyle drugs (e.g. anti-obesity drugs). These drugs are not provided as part of HA’s standard services nor covered by the standard fees and charges in public hospitals and clinics. Patients who choose to use these drugs must purchase them at their own expense.

Over 93% of drugs in the HADF are currently provided at standard fees and charges while the provision of SFI drugs without safety net in HADF is to provide patients with an additional choice of using such drugs at their own expense while continuing their treatment in the highly subsidised public healthcare system.

As mentioned in the audit report, 96.5% of prescriptions involving non-HADF drugs in 2015-16 were provided by HA at standard fees and charges. Hence, HA has mostly covered the clinical needs of individual patients for use of non-HADF drugs at a highly subsidised rate in public hospitals.

- 8) According to paragraph 2.31, there were on average 850 new drug items registered in each of the years between 2013 and 2015 in Hong Kong, but few HA hospitals and clinics had applied for new drug listing. Would there be a chance that new drugs were not given timely consideration for incorporation into HADF? Has HA found out the reasons why only a few HA hospitals, mainly the leading ones, have regularly applied for new drug listing? Is it because applications by other hospitals for new drug listing were not given due consideration or because of other reasons? Has HA encouraged and urged more hospitals and clinics to apply for new drug listing? If so, what are the details? If not, what are the reasons?

There are approximately 1,300 drugs listed on the HADF which covers a wide range of disease treatments. At present, even hospitals providing quaternary services have a range of approximately 1,100 drugs only in their hospital drug lists, demonstrating that the existing pool of drugs in the HADF is in general sufficient to meet the demand for public medical services.

A new drug entity or indication would be considered for listing if (a) it is registered in Hong Kong, (b) it is indicated for prevention or treatment of conditions which are not covered by drugs in the existing HADF, (c) it has an advantage in terms of efficacy and adverse effects over the existing agents in the HADF for the same indication; or (d) it is equivalent in terms of safety and efficacy as compared to the existing agents in the HADF for the same indication and of lower treatment costs. HA follows an evidence-based approach in evaluating new drug applications for listing on the HADF, having regard to three principal considerations of safety, efficacy and cost-effectiveness while taking into account other relevant factors, including international recommendations and practices, advance in technology, disease state, patient compliance, quality of life, actual experience in the use of drugs as well as views of professionals and patient groups.

There are currently over 20,000 registered drugs in Hong Kong. Among the new product registrations every year, the majority are related to new sources or formulations of existing drugs in the market. It would be unrealistic or impracticable for HA, as a publicly-funded organisation, to provide all registered drugs in the market through public funding. There is a continual need to review the development of the HADF under the established mechanisms.

HA has an establish mechanism for listing new drugs on the HADF. New drug applications are initiated by clinicians who are aware of international practices and market availabilities of new drugs relevant to their services. New technologies generally target advanced and complex clinical cases which are predominantly treated in hospitals with teaching and quaternary services. Hence new drug applications are usually submitted by hospitals engaged in teaching and quaternary services or serving as a specialised centre for certain diseases. All Hospital DTCs may submit new drug applications. However, Cluster DTCs would usually cover the need of their affiliated hospitals / clinics for new drug applications. Once a new drug application has been successfully

listed on the HADF, all hospitals may use the drug and there is no need to submit an application for the same drug / indication again.

In view of the audit recommendations, HA has requested Cluster and Hospital DTCs to set a standing agenda item on new drug applications in their DTC meetings, and has shared the link to the Department of Health's webpage on newly registered medicines in Hong Kong in the HADF website.

- 9) Based on paragraphs 2.33 and 2.34, will HA please explain why drugs in regular demand cannot be included in HADF? Was drug costs a consideration or were there other reasons?

HADF drugs are intended for corporate-wide use benefitting the entire local population while non-HADF drugs are to cater for the clinical needs of individual patients in exceptional situations. As stated in paragraph 2.10(b) of the audit report, the use of non-HADF drugs is an integral part of medical care, and accounts for only 0.3% of the total number of drug items dispensed in HA in 2015-16. The very low percentage of use is in line with the principle of using non-HADF drugs in exceptional situations.

In view of the audit recommendations, HA will set up a mechanism to strengthen the monitoring and analyse the frequency and duration of use of individual non-HADF drugs within and across hospitals, and evaluate the need for continual use. Hospital DTCs will be requested to review if there is a continual need for using certain non-HADF drugs and to consider submitting new drug applications to the HA Drug Advisory Committee for evaluation and listing on the HADF where appropriate.

- 10) Has HA reviewed whether it can establish bulk contracts for 520 drug items or some of them as mentioned in paragraph 3.10 and Table 9? If it has not, what are the reasons? If it has, why did it eventually fail to establish bulk contracts? Can HA assess the resource savings that can be achieved if bulk contracts for these drugs are established?

In HA, supply contracts are generally established for purchases exceeding \$1.5 million. Out of those 520 drug items mentioned in the audit report, some are not suitable for supply contract arrangement, such as drug items that have extremely small patient pools and those which have unstable consumption patterns.

In fact, in line with HA's on-going drug procurement strategy, there have been progressive annual increases in the number of drug items procured under supply contracts in recent years, i.e. from 991 in 2013-14 to 1,153 in 2015-16 representing an overall increase by 16.3% in 3 years. HA has a working list of drug items planned for gradual inclusion in the bulk contract arrangement. The list is prioritised according to the annual consumption of different drugs and the need for central quotations to support purchases by local hospitals.

In response to the audit recommendations, HA will compare those 193 drug items against HA's working list and assess whether any of these items are suitable for bulk contract arrangements. However, since a significant portion of these items are proprietary products with patent protection, it is anticipated that the workflow for procuring these drug items will be streamlined but there would not be substantial savings through bulk contract arrangement.

- 11) Has HA investigated whether the situation mentioned in paragraph 3.11 has arisen because the hospitals concerned deliberately refrained from establishing bulk contracts or due to other reasons?

According to HA's Procurement and Materials Management Manual, hospitals are given the authority to make direct purchase at a value not exceeding \$1.5 million while purchases exceeding \$1.5 million should be centrally arranged through bulk contracts established by the HAHO. The case mentioned in Paragraph 3.11 of the audit report is within the approved purchase limits for direct purchase by hospitals. On the other hand, the recommended practice on procurement of drugs is that hospitals should enlist HAHO's support to seek quotations for direct purchase with a total value exceeding \$100,000.

In response to the audit recommendations, HA will formalise the direct purchase practice into corresponding guidelines.

- 12) In connection with the aforesaid two questions, in cases where hospitals do not follow the existing procurement practices for drugs, has HA taken any follow-up actions and what are the outcomes?

As explained in the preceding reply, hospitals are given the authority to make direct purchase at a value not exceeding \$1.5 million. The concerned hospitals have been reminded to follow the recommended practice to enlist HAHO's

support to seek quotations for direct purchase with a total value exceeding \$100,000.

In response to the audit recommendations, HA will formalise the direct purchase practice into corresponding guidelines.

- 13) Has HA taken any follow-up actions against Supplier A in respect of the situation mentioned in paragraph 3.16? Has HA conducted any study on the procurement of drugs through other channels? If it has, why has it not adopted other channels to procure drugs? If not, what are the reasons?

HA has a well-established centralised procedure for handling drug delivery complaints. Every delivery complaint is centrally followed up by HAHO with the concerned supplier. In most cases, the drug suppliers are able to improve their delivery performance for the concerned products. If a particular delivery problem persisted and the supplier was not able to perform according to the contract, HA may convene a Performance Review Group meeting to review in detail the performance of the drug supplier for necessary follow-up action, which would include making recommendations to the tender assessment panel as to whether future tender submissions of the drug supplier would be considered.

Each of the delivery complaints against supplier A mentioned in the audit report had been followed up and necessary improvements were made. In response to the audit recommendation, HA will conduct regular Performance Review Group meetings to review the performance of manufacturers and suppliers.

- 14) What is the original intent of HA in setting the re-order levels and the minimum levels for drug items as mentioned in paragraph 3.22? What impacts will the situation mentioned in the paragraph probably have on medical services?

It is mentioned in paragraph 3.21 of the Director of Audit's Report that HA requires that stock of drug items should be maintained at the lowest possible level, balancing the need for maintaining continuity of supply to meet routine and peak demands. HA's computerised Enterprise Resource Planning System would generate individual prompts to hospitals to consider re-ordering a drug item when its stock level drops to or below the re-order level which is calculated according to the consumption of the drug item and the stock on hand. These are reference prompts only to remind pharmacy staff that a particular product

may need re-ordering. However, the pharmacy staff would need to consider a basket of factors, including clinical needs, consumption trend and storage capacity, in determining whether re-ordering is necessary. There is another mechanism in place to prompt for regular checking of stock level such that the concerned drugs would not go out of stock and drug supply would not be discontinued even if the pharmacy staff does not follow the prompts.

- 15) In connection with the aforesaid question and according to HA's response in paragraph 3.23, pharmacy staff did not solely rely on the re-order levels and minimum levels generated by the computer system to determine when and the quantity to re-order. When did the aforesaid criteria for re-ordering drugs come into effect? Are these criteria implemented in all hospitals? Does HA know that the computer system has failed to effectively assist pharmacy staff in making drug re-ordering decisions? If not, what are the reasons that HA was not aware of the situation? If yes, how will HA improve the drug re-ordering procedure?

Since the pharmacy computer system was implemented in all hospitals in 1994, the same re-ordering prompt has been put into use across all hospitals for consideration of re-ordering individual drug items. Since then, the system prompt had undergone refinements on both the calculation and the re-ordering level. The system prompt has all along been providing useful information and remains a reference prompt for pharmacy staff to determine when to re-order, having regard to a basket of factors mentioned in the preceding reply.

In response to the audit recommendations, HA will continue to review and explore relevant factors to assist decision making in the drug re-ordering process.

- 16) Will HA please set out in a table the respective average periods of time covered by prescriptions (drug supply durations) dispensed to the following categories of patients from 2011-2012 to 2015-2016:
- a) chronic disease patients at General Outpatient Clinics ("GOPCs");
 - b) other patients at GOPCs;
 - c) all patients at GOPCs;

d) chronic disease patients at Specialist Outpatient Clinics ("SOPCs");

e) other patients at SOPCs; and

f) all patients at SOPCs ?

HA does not maintain statistics of drug supply duration for patients with different diseases. The average drug supply durations, stratified into General Outpatient Clinics ("GOPCs") and Specialist Outpatient Clinics ("SOPC") patients, are set out below:

HA GOPC Patients				
Year	Average Drug Supply (in Days)			
	0-18 Year Old	19-65 Year Old	Over 65 Year Old	HA Overall
2011-12	8.9	37.5	54.6	43.0
2012-13	8.9	38.4	56.9	44.3
2013-14	9.0	40.4	60.0	46.8
2014-15	9.0	42.9	63.1	49.8
2015-16	8.7	43.9	65.1	51.3

HA SOPC Patients				
Year	Average Drug Supply (in Days)			
	0-18 Year Old	19-65 Year Old	Over 65 Year Old	HA Overall
2011-12	62.0	70.7	83.5	76.4
2012-13	62.5	72.0	85.6	78.1
2013-14	64.5	73.5	87.7	79.9
2014-15	65.8	76.0	90.5	82.6
2015-16	65.8	77.4	92.2	84.2

- 17) In connection with the aforesaid question, will a comparison between the current figures and the figures five years ago project a different picture? If so, what are the details and the reasons?

With the ageing of local population, the demand for general and specialist outpatient services in public hospitals has been increasing over the years. To cope with the increasing service demand, the intervals between follow-up medical appointments, hence the duration of drug supply to individual patients, have been lengthened.

Over the past five years, there had been a consistent increase in the duration of drug supply to individual patients with similar gradients of increase for all age groups of both GOPC and SOPC patients. In 2015-16, the average duration of SOPC prescriptions (84.2 days) was 32.9 days longer than that of the GOPC prescriptions (51.3 days). The drug supply duration for patients aged over 65 also ranked top among all age groups.

- 18) Can HA draw up guidelines on drug supply durations according to such factors as the nature or severity of different diseases?

The interval between outpatient medical appointments depends on the clinical conditions of individual patients, compounded by the increase in demand for public healthcare services which has resulted in extended intervals of medical appointments. Patients, even with the same disease, would have varied clinical conditions which warrant different intervals of follow-up appointments. It is therefore not appropriate to set the duration of drug supply for different diseases.

- 19) Regarding the pilot scheme mentioned by HA in paragraph 4.9(b), will HA provide the details and arrangement of the pilot scheme, including when and in which specialist outpatient clinics it will be tried out, the expected duration of the pilot scheme, as well as the timetable for the formal and full implementation of drug refill services, etc.?

At present, HA is actively planning the implementation of drug refill services for selected groups of specialist outpatients in phases. HA will prepare relevant technologies and strengthen resource provisions to facilitate service implementation. HA aims to launch a pilot programme for selected high-risk patients by the end of 2017-18, taking into consideration patients' age, poly-pharmacy and chronic medications with long duration of drug supply. HA will split their prescriptions and provide necessary support and drug counselling for targeted patients between refills through enhanced pharmacy services. Upon positive evaluation of the pilot programme, HA will consider extending the services to other SOPCs.

- 20) Has HA taken any follow-up actions against the hospitals mentioned in paragraphs 4.14 and 4.15? If HA has done so, what are the details? If it has not done so, what are the reasons?

HA has established operational guidelines on proper handling, safe custody, record keeping and disposal of dangerous drugs. The guidelines are reviewed and updated on a regular basis. In the event of missing dangerous drugs, the hospital concerned would conduct investigation and analyse the potential risk factors and possible root causes so as to prevent recurrence of similar incidents in future. Regarding the four incidents of missing dangerous drugs that occurred in the same hospital, the concerned hospital had conducted prompt investigations and took necessary follow-up actions, including review of drug administration and dangerous drug register records, interviewing the concerned staff to obtain further details of the incidents, reporting the incidents to the Police and introducing necessary improvement measures. As the four incidents happened in different wards and involved different personnel over a period of three years, HAHO concurred that they were isolated incidents. The concerned hospital had been asked to reinforce among its frontline staff the importance of strict adherence to relevant guidelines on handling of dangerous drugs.

- 21) According to paragraph 4.16, five incidents (16%) of missing dangerous drugs had not been reported to the Department of Health after a lapse of 425 to 1 494 days since they were found missing, why did the authorities fail to practically implement the relevant reporting mechanism? Does such situation reflect that there are inadequacies in the mechanism for reporting incidents of missing dangerous drugs? What are the follow-up actions taken by the authorities in respect of cases involving delayed reporting of missing dangerous drugs?

In the past, there was not a standardised workflow among HA hospitals on reporting of missing dangerous drug incidents to the Department of Health. As a result of miscommunication between clinical departments and pharmacy and the lack of a standardised workflow, five incidents of delayed reporting on missing dangerous drugs occurred.

HA has reviewed the situation and formulated a standardised workflow across HA hospitals. From now on, hospital pharmacy would take up to report dangerous drug irregularities to the Department of Health. Furthermore, the concerned departments are required to report the incidents to the hospital management and HAHO via the Advance Incident Reporting System such that the incidents will be duly monitored and followed-up.

- 22) Regarding the situation mentioned in paragraph 5.5, will HA inform this Committee whether laboratories had explained the reasons to HA on each occasion of late submission of reports? What were the respective numbers of reports that were not submitted within the required time in each of the past five years? Have the authorities taken any follow-up actions against the laboratories concerned? What are the progress and specific details of HA's actions in following up on its response set out in paragraph 5.8(b), including how contract terms will be refined to reduce the occurrence of delayed submission of test reports?

The terms of the testing contract stipulate that a test report should be submitted to HA within 90 calendar days and the laboratory may request for extension of the submission deadline with justifications, which may be granted by HA when deemed necessary. It is not uncommon that extra time would be required for conducting sample drug tests, for reasons including the need for acquiring chemical reference standards and procuring specific apparatus or equipment. In each case where extra time was required, the laboratory had communicated with HA to explain the situation and request for extension. HA maintained communication with the testing laboratories until the report was submitted. In the past 3 years, the proportion of sample drug tests that required extra time for completion amounted to 52%, 41% and 65% respectively.

In response to the audit recommendations, HA will review the contract requirements to ensure feasible and timely submission of test reports, and build in multiple time frames to address cases meeting different levels of requirements.

- 23) Can HA explain in detail the reasons for failing to conduct any inspection visit to Supplier D as mentioned in Case 3 of paragraph 5.11? In such a case, how can HA ensure that the drugs supplied comply with the expected quality standards and the safety of those members of the public who take the drugs concerned?

The Department of Health is the regulatory body responsible for ensuring the quality and safety of drug products used in Hong Kong, and would inspect premises of drug manufacturers and suppliers for overall compliance with applicable laws and regulations. HA, as the major purchaser of drugs for delivering quality public healthcare services in Hong Kong and in exercising its due diligence, has an established risk-based inspection programme taking

severity and frequency of complaints as the prioritisation criteria. HA would inspect the premises of drug manufacturers and suppliers to review their compliance with the contract requirements as well as improvement measures with respect to drug product quality complaints.

In response to the audit recommendation, HA will review the existing programme on inspection of premises of drug suppliers.

- 24) Regarding the situation mentioned in paragraph 5.15, why did HA not strictly enforce the requirement for those suppliers who had failed to report within the one-month time frame? In respect of the suppliers' late submission of reports, have the authorities required suppliers to give an explanation or take follow-up actions? In such a case, how can HA ensure the safety of those members of the public who take the drugs concerned?

In its initial correspondence with the supplier / manufacturer on investigating a drug quality complaint, HA would request for submission of an investigation report within one month. In the course of following up individual complaints, HA would maintain close communication with the supplier on the progress of investigation. However, certain investigations may involve time-consuming logistics such as returning samples to overseas manufacturers, commissioning independent tests and implementing improvement measures that require regulatory approvals. All these actions require ample time for completion and HA would keep on reviewing the progression of individual investigations.

For high-risk cases with potential impacts on patient safety, the concerned drug products would be withheld from use in HA while the investigation result is pending to ensure that patient safety is not compromised. HA will also notify the Department of Health of such high-risk cases if necessary.

- 25) Regarding its response set out in paragraph 5.18, will HA please inform this Committee of the specific measures taken by HA to monitor the progress of investigation of complaints, as well as the details and progress of and the timetable for formulating performance indicators?

HA will categorise the investigation process requirements in the light of the complaint nature, and analyse the distribution of cases in order to develop key performance indicators for monitoring the investigation of drug product quality complaints. The key performance indicators will be established within 12

months and the mechanism will be reviewed periodically to ensure effective and quality investigation of drug product quality complaints.

- 26) What were the respective numbers of patients who had been approved and had been rejected to receive subsidies under the Samaritan Fund and the Community Care Fund?

The table below sets out the application statistics for drug items for the Samaritan Fund (“SF”) and the Community Care Fund (“CCF”) Medical Assistance Programme for the past five years:

Year	Samaritan Fund		CCF Medical Assistance Programme	
	Number of applications approved for subsidy	Number of applications rejected	Number of applications approved for subsidy	Number of applications rejected
2011-12	1,516	3	200	1
2012-13	1,745	0	829	0
2013-14	2,027	0	1,364	0
2014-15	2,230	0	1,680	0
2015-16	2,237	0	1,678	0

- 27) Regarding the situation mentioned in paragraph 6.7, can HA inform this Committee:
- a) whether HA has reflected such situation to the Government, and regarding the aspirations of many patients and patient groups for expanding the coverage of the safety net, whether it has conducted studies on how to make improvement in this respect and respond to such aspirations; if so, of the outcome and the specific enhancement measures; if not, the reasons for that;
 - b) whether the authorities have reviewed if the threshold for including drugs under the safety net is excessively high; and
 - c) of the assistance that can be provided by HA for patients who cannot afford self-financed drugs without safety net for treatment of cancers?
- a) The Government’s healthcare policy is to ensure that no one is prevented, through lack of means, from obtaining adequate medical treatment. To fulfil

this policy objective, HA has been providing highly subsidised healthcare services to the public. Patients are provided with drugs in accordance with their clinical needs and available treatment guidelines in HA at highly subsidised rates. The scope of this policy is described by services under the standard fees and charges. For general drugs and special drugs of which usage is within the specific indications, they are provided within the standard fees and charges; and guided by the principles of evidence-based medical practice, targeted subsidy and opportunity costs considerations, SFI drugs (both with or without safety net) are non-standard provisions in HA and fall outside the scope of this policy. Patients will have to purchase these drugs at their own expenses.

SFIs with Safety Net are drugs which are proven to be of significant clinical benefits but are extremely expensive for HA to provide as part of its standard services. These drugs are not covered by the standard fees and charges in public hospitals and clinics. Patients who require these drugs and can afford the costs have to purchase the drugs at their own expense. A safety net is provided through relevant funds to subsidise the drug expenses of patients who have financial difficulties.

SFIs without Safety Net include drugs with preliminary medical evidence only, drugs with marginal benefits over available alternatives but at significant higher costs, and lifestyle drugs (e.g. anti-obesity drugs). These drugs are not provided as part of HA's standard services nor covered by the standard fees and charges in public hospitals and clinics. Patients who choose to use these drugs must purchase them at their own expense.

The therapeutic objectives of these drugs fell outside the scope of highly subsidised public medical services. Nevertheless, the provision of SFI drugs without safety net allowed patients the choice of using drugs outside the highly subsidised healthcare system through self-financing while remaining within the highly subsidised healthcare system.

HA has always valued views from patients and patient groups for expanding the coverage of safety nets, and has an established mechanism for conducting annual exercises to prioritise new drugs to be included under the scope of the safety net, taking into account the safety, efficacy and cost-effectiveness of the new drugs, etc.

Over the years, HA has expanded the coverage of the SF and the CCF Medical Assistance Programme to cover more SFI drugs and repositioned certain SFI drugs covered by the SF and the CCF Medical Assistance Programme as Special drugs in the HADF which are provided at standard fees and charges in public hospitals. From 2010-11 to 2015-16, 16 SFI drugs had been introduced to the SF, and 9 SFI drugs / indications under the coverage of the SF repositioned as Special Drugs. As for the CCF Medical Assistance Programme, since its commencement in August 2011 to 2015-16, 12 SFI drugs has been introduced to its coverage, and 2 SFI drugs / indications originally covered by CCF Medical Assistance Programme has been included in the coverage of the SF. Furthermore, since 2010-11, there are 22 SFI drugs without safety net repositioned as Special Drugs.

- b) Guided by the principles of evidence-based medical practice, targeted subsidy and opportunity costs considerations, HA has already included those SFI drugs which are proven to be of significant clinical benefits but are extremely expensive for HA to provide as part of its standard services in the SF safety net.

As for those SFI drugs which have not yet fulfilled the criteria for inclusion in the safety net coverage of SF, the HA, since August 2011, administers the CCF medical assistance programme under the supervision of the Food and Health Bureau, and included those SFI cancer drugs which have been rapidly accumulating medical scientific evidence and with relatively higher efficacy in the coverage of the programme to provide subsidy for needy patients who require those drugs.

- c) SFI drugs without safety net include drugs with preliminary medical evidence only, drugs with marginal benefits over available alternatives but at significant higher costs, and lifestyle drugs (e.g. anti-obesity drugs). The therapeutic objectives of these drugs fall outside the scope of highly subsidised public medical services. The provision of SFI drugs without safety net provides patients with the additional choice of using such drugs at their own expense while continuing their treatment in the highly subsidised public healthcare system.

For those patients who choose not to use those SFI drugs without safety net, HA would continue to provide them with other medical services under the prevailing scope of services such as appropriate alternate drugs, operation and radiation therapy.

- 28) As it is pointed out in paragraph 6.15 that the percentage of cases of under-reporting of assets and/or income was high and in paragraph 6.21 that a long time was taken to follow up on some significant under-reporting cases, does this reflect that there are inadequacies in the relevant follow-up mechanism? What specific measures (including the number of manpower deployed) has HA put in place to curb abuse or deceptive fraud cases?

HA started to conduct post-approval check of the SF and CCF applications since 2010. The under-reporting cases with overpayment of subsidy were found to decrease from 27% in 2010/11 to 1% in 2015/16. And the amount overpaid was also reduced from \$820,000 in 2010/11 to \$33,000 in 2015/16. The decreasing trend demonstrates the effectiveness of the HA's measures on preventing and deterring fraud.

For the significant under-reporting cases, the Cluster Checking Units ("CCUs") will first collate the relevant documents and information of cases and then refer them to the Head Office Medical Fee Assistance ("MFA") Section for level-2 checks. Upon receiving CCU's referrals, the MFA will review and check if there is other approved application under the same patient. If other applications are found, MFA will wait for CCUs to complete checking of these applications before referring the case to case conference for deciding the appropriate follow up actions. Therefore, some of the cases with multiple applications might take longer processing time. On the other hand, in 2016, HA launched an electronic system to conduct post-approval checks. The system will help to streamline checking process, enhance checking efficiency and monitor checking processing time. HA will also develop performance indicators to monitor the processing times of level-1 and level-2 checks.

To safeguard public funds, HA has been implementing multiple measures to prevent and deter fraud. Measures for the public include educating public the importance of honesty through posters, leaflets, education video, media briefing and patient forum. Measures for the subsidy applicants include specifying the consequence of acquiring subsidy by deception in the subsidy briefs and the application forms. The patient and his household members are also required to the declaration confirming their understanding on the consequences. For the post-approval checking, HA is exploring to sample more cases with substantial amount of subsidy for checking, to expand the scope of checking and extend the bank search period up to the expiry of the validity period of the financial assistance so as to enhance the detection of fraud and abuse.

Response from Department of Health

- 1) According to paragraph 4.16, five incidents (16%) of missing dangerous drugs had not been reported to DH after a lapse of 425 to 1 494 days since they were found missing, why did the authorities fail to practically implement the relevant reporting mechanism? Does such situation reflect that there are inadequacies in the mechanism for reporting incidents of missing dangerous drugs? What are the follow-up actions that will be taken by the authorities in respect of cases involving delayed reporting of missing dangerous drugs?

According to the Dangerous Drugs Ordinance, hospitals authorized to possess dangerous drugs shall forthwith notify the Director of Health once they found that the proper quantity of any dangerous drug is not in their possession. Any person who fails to notify the Director of Health in accordance with the provisions shall be guilty of an offence and shall be liable on conviction to a fine of \$5000.

When DH received notifications of incidents of missing dangerous drugs from HA in May 2016, the DH immediately sought advice from the Department of Justice (DOJ) on the cases of suspected delayed notifications, and issued an advisory letter to the HA in August 2016, upon DOJ's advice, reminding the HA to handle dangerous drugs in strict compliance with the Dangerous Drugs Ordinance, and to step up security measures and develop protocols to ensure safe custody of dangerous drugs.

Response from Food and Health Bureau

- 1) Why do self-financed drugs fall outside the scope of the Government's healthcare policy mentioned in paragraph 6.12(a)? If there are patients who cannot afford certain types of self-financed drugs without safety net for treatment of cancers, while the drugs concerned are of prime importance to the treatments they need, and yet self-financed drugs fall outside the scope of the prevailing healthcare policy, does it contrary to the Government's objective of "ensuring that no one is prevented, through lack of means, from obtaining adequate medical treatment"? Has the Administration ever consulted the Legislative Council and the public on the issue of self-financed drugs falling outside the scope of the prevailing healthcare policy, and explained to them the relevant reasons and details?

While the Government's healthcare policy is to ensure that no one is prevented, through lack of means, from obtaining adequate medical treatment, self-financed drugs (both with or without safety net) are services that fall outside the scope of this policy.

Self-financed drugs include: (a) drugs that are of significant clinical benefits but extremely expensive for the HA to provide as part of its standard services; (b) drugs with preliminary medical evidence only; (c) drugs with marginal benefits over available alternatives but at significant higher costs; and (d) lifestyle drugs (e.g. anti-obesity drugs).

In both 2013-14 and 2014-15, general drugs and special drugs, which were highly subsidized by public funding and covered by the standard fees and charges in public hospitals and clinics, accounted for 98.6% of the drug items prescribed to out-patients, which was much greater than that of the self-financed drugs(both with or without safety net). It shows that the HA has on the whole ensured equitable access by patients to cost-effective drugs of proven safety and efficacy.

HA will continue to include appropriate new drugs under the scope of the safety net, based on safety, efficacy and cost-effectiveness considerations and other relevant factors as described in the HADF Management Manual.

Abbreviation

CCF	Community Care Fund
CCU	Cluster Checking Unit
DTC	Drug and Therapeutics Committee
DH	Department of Health
GOPC	General Outpatient Clinic
HA	Hospital Authority
HADF	Hospital Authority Drug Formulary
HAHO	Hospital Authority Head Office
MFA	Medical Fee Assistance
SFI	Self-financed Item
SF	Samaritan Fund
SOPC	Specialist Outpatient Clinic



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6 January 2017

Clerk
Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong
(Attn: Mr Anthony Chu)

Dear Mr Chu,

**Legislative Council
Public Accounts Committee**

**Consideration of Chapter 6 of the Director of Audit's Report No. 67
Funding of academic research projects by the
Research Grants Council**

I refer to your letter of 22 December 2016 to the Secretary for Education. The requested information is now set out at Annex for reference by the Public Accounts Committee.

Yours sincerely,



(Sharon Ko)
for Secretary for Education

cc Secretary-General, University Grants Committee
Secretary for Financial Services and the Treasury (Attn: Mr Raistlin Lau)
Director of Audit

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**Legislative Council
Public Accounts Committee (PAC)**

Consideration of Chapter 6 of the Director of Audit's Report No. 67

**Funding of academic research projects by
the Research Grants Council (RGC)**

**Secretary for Education (SED)'s reply to
a written question raised by the PAC**

Question

According to paragraph 2.6 [of Chapter 6 of the Director of Audit's Report No. 67], you said that it was not easy to identify non-local academics of high standing who were willing to commit to serving Hong Kong. Have you explored measures, in consultation with the University Grants Committee (UGC), to overcome the difficulties and appoint individuals who are competent and experienced to meet the specific needs of RGC and at the same time ensure a healthy turnover of Council members?

Reply

The Secretary for Education has close liaison with the UGC Secretariat on the appointment of Members, including non-local Members, to RGC, and tap on our extensive networks in the international academic community to identify suitable candidates whenever the opportunity arises.

In the context of the UGC Secretariat's response to Chapter 2 of the Director of Audit's Report No. 67, the Secretariat has pointed out that the terms of appointment of non-local members (including non-local RGC members) did not offer a fee, and the honorarium given to them was an award regardless of the time spent on UGC activities. Non-local members travelled to Hong Kong to attend meetings on a voluntary basis and often had to take leave from their own full-time jobs. Recognising that non-local members' time was being given normally without payment, and that there were immense benefits to attract top university leaders from around the world to serve Hong Kong, the Secretariat considered it appropriate that the standard of hotel accommodation offered to them when attending meetings in Hong Kong should be commensurate with their standing and should not deter candidates from accepting an offer of appointment.

Besides, it should be reckoned that non-local Members also generally take more time to fully familiarize themselves with the local higher education landscape. Therefore, there have been cases where the Secretary for Education considered it fully justified to extend the term of appointment of selected non-local members slightly beyond six years.

The Review of the RGC (Phase I) is being implemented by UGC. It will study, amongst others, the structure of the RGC. In the light of the recommendations of the review, we will consider improvement measures in consultation with UGC / RGC.

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UGC/GEN/CON/103/1/6/2016
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3 January 2017

Mr Anthony Chu
Clerk
Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 6 of the Director of Audit's Report No. 67
Funding of Academic Research Projects by Research Grants Council

I refer to your letter dated 22 December 2016 requesting our response on a number of issues raised in the captioned report. The requested information is now set out at the Annex for reference by the Public Accounts Committee. As requested, my colleagues will send you soft copies of the information by email.

As for the question addressed to the Secretary for Education, we understand that the Education Bureau will provide you with a reply separately.

Should you need further clarifications on the above, please feel free to contact Mr David Leung, Deputy Secretary-General (2) on 2844 9942.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. T. Armour', with a horizontal line underneath.

(Richard T ARMOUR)
Secretary-General

c.c. 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)

Public Accounts Committee
Consideration of Chapter 6 of the Director of Audit's Report No. 67
Funding of Academic Research Projects by Research Grants Council

Replies to Written Questions

For the Secretary-General, University Grants committee

Part 2 : Governance and management issues

- 1. According to paragraphs 2.4 to 2.7, the Government has promulgated the six-year rule to ensure a healthy turnover of members of advisory and statutory bodies. Out of 48 appointed members of the Research Grants Council ("RGC"), eight of them have served the Council for more than six years. The Administration replied that there are difficulties in appointing individuals who meet the needs of RGC. What measures have been taken to appoint suitable RGC members in the period 2010-2011 to 2015-2016 (all years mentioned hereinafter refer to academic years)? What have been the difficulties in appointing suitable members, and what are the measures to overcome them? Will potential conflict of interest in the future a factor taken into account when deciding who to appoint as a member of RGC?**

- A1. Among the eight RGC Members mentioned in the Chapter 6 of the Director of Audit's Report No. 67 serving from the 2010/11 to 2015/16 academic years, seven were non-local Members. This reflects that the difficulties are largely associated with the appointment of non-local RGC Members.**

To avoid actual or perceived conflict of interest in the assessment of grant applications, only non-local RGC Members who are willing to commit to the substantial workload in Assessment Committees and Panels and do not have any affiliation with local universities are invited to take up Assessment Committee / Panel chairmanship. However, it is not easy to identify non-local Members of high standing who are willing to commit to serving Hong Kong. Non-local Members also generally take more time to fully familiarize themselves with the local higher education landscape and assessment mechanism, and there have been cases where the Secretary for

Education considered it fully justified to extend the term of appointment of selected non-local Members slightly beyond six years.

In the context of the University Grants Committee (UGC) Secretariat's response to Chapter 2 of the Director of Audit's Report No. 67, we have pointed out that the terms of appointment of non-local Members (including non-local RGC Members) did not offer a fee, and the honorarium given to them was an award regardless of the time spent on UGC activities. Non-local Members travelled to Hong Kong to attend meetings on a voluntary basis and often had to take leave from their own full-time jobs. Recognising that non-local Members' time was being given normally without payment, and that there were immense benefits to attract top university leaders from around the world to serve Hong Kong, we considered it appropriate that the standard of hotel accommodation offered to them when attending meetings in Hong Kong should be commensurate with their standing and should not deter candidates from accepting an offer of appointment.

The Review of the RGC (Phase I) is being implemented by the UGC. It will study, amongst others, the structure of the RGC. In the light of the recommendations of the review, improvement measures will be considered.

2. **According to paragraph 2.10(a), RGC had not promulgated rules of procedure governing the conduct of meetings for the Council, its 10 committees and 18 panels. According to paragraph 2.12(a), the University Grants Committee ("UGC") Secretariat will consult RGC on the arrangements for promulgating formal sets of rules of procedure for Council/committee/panel meetings taking into account their respective roles and functions. The Review of RGC (Phase II) will provide further insight to facilitate RGC in promulgating the formal sets of rules of procedure. However, according to paragraph 2.37, the findings of the Phase I Review are expected to be available in mid 2017 and the Phase II Review will only be conducted after the Phase I Review. What are reasons for RGC not promulgating rules of procedure governing the conduct of meeting for the Council in the past? Do you agree that it is unsatisfactory that there will not be any rules of procedure until the completion of the Phase II Review? Will you consider expediting action to ensure that formal sets of rules of procedure are in place as soon as possible? What is the timeline for implementing the new measures?**

A2. There are existing documents governing the major meeting proceedings of the RGC Council / Committees / Panels. These documents are promulgated to Members for reference and adopted as meeting rules and procedures, though they do not have a collective name called “Rules of Procedures”. Some examples of these documents are:

- (a) Guidelines on assessment procedures for research funding schemes;
- (b) Declaration of interest by Council / Committee / Panel Members;
- (c) Code of conduct for Council / Committee / Panel Members, applicants and reviewers in handling the Council’s business;
- (d) Guidelines on handling conflict of interests during proposal evaluation process; and
- (e) Guidelines on determination of penalty for research misconduct and adverse performance records.

In addition, the frequency of the Council meeting has been laid down in the RGC Annual Report. Committees / Panels hold meetings once or twice a year to assess research applications invited in the year. Calls for Proposals are published on the RGC website and schedules of meetings are issued to Members in advance in the Secretary’s Reports.

To address the Audit concerns, the RGC decided at its meeting held on 10 December 2016 the following improvement measures:

- (a) the Secretariat will consolidate the existing documents governing the major meeting proceedings into a single set of document called “Rules of Procedures” and submit to the RGC for endorsement at its next meeting to be held in June 2017; and
- (b) the Review of the RGC (Phase II) will examine, amongst others, the assessment and monitoring processes and measures guarding against conflict of interests. The RGC will consider further refinements to the “Rules of Procedures” by making reference to the recommendations of Phase II Review.

3. According to paragraph 2.10(c), there were no minutes of meetings for five of the eight committees and 10 of the 13 panels. According to UGC, the deliberations regarding policy issues, attendance of members, declarations of interest and assessment remarks were recorded in other forms of documents. What are the justifications for RGC using other documents to replace the function of minutes of meetings? Do you agree that it is a basic requirement of good governance to prepare minutes of meetings? Will minutes be prepared for all committee/panel meetings in future? What will be the format of the minutes? If yes, has this already been put into practice?

A3. There are all along records of decisions for all meetings. In the past, the deliberations of meetings and Members' declaration of interest were recorded in the following documents:

- “Minutes / Notes of Meetings” – to record the deliberations of Committee meetings that oversee policies of research funding schemes.
- “Chairmen’s Reports” / “Memorandum of Meetings” – to record the summaries of funding recommendations and deliberations regarding policy issues of Assessment Committees / Panels that assess research funding applications;
- “Electronic System” – to record Members’ declaration of interest in the assessment of applications submitted under funding schemes for single Principal Investigators;
- “Assessment Forms” / “Assessment Summaries” - to record the assessment remarks on individual applications. They will be provided to the applicants as feedback of the Assessment Committees / Panels.
- “Assessment Summaries” or “Review Forms” – to record the Monitoring and Assessment Panels’ rating on the on-going and completed projects. They will be provided to the project holders as feedback on their projects.
- “Summary Tables” – to record deliberations of Disciplinary Committee meetings that handle alleged research misconduct cases.

Starting from June 2016, the Secretariat has refined the arrangements in note-recording for the Committees / Panels by consolidating the information which used to be recorded in various forms of documents and presenting it in the form of “Minutes of Meetings”. The minutes include information on members’ attendance, main conclusion, follow-up actions (if required), etc.

- 4. According to paragraph 2.17(b), for 8 of the 19 funding schemes administered by RGC, there was no documentary evidence showing that the Council had reviewed or approved individual projects. For six of the eight schemes, the Council had not been provided with any information on individual projects to be approved. Why did you not provide the information on individual projects for Council members’ scrutiny and approval? Without such information, how can RGC make informed decisions in considering the applications for research funding, and approving awards and other disbursements from funds made available by the Government through UGC for research?**

- A4. The RGC follows international practice and adopts a rigorous peer review mechanism to assess grant applications. Academic merit is the prime assessment criterion. Grant applications are assessed by RGC Assessment Committees / Panels. Under the peer review mechanism, applications are assessed by at least two external reviewers and two to three Committee / Panel Members who are experts in the fields of the applications before they are submitted to the Committee / Panel meetings for finalizing a list of recommended projects. As the RGC deals with policy and strategy in assessment of grant applications, it is responsible for approving the overall funding amounts of recommended projects under various funding schemes.

For collaborative research funding schemes, starting from December 2015, the list of shortlisted / recommended projects have been projected on the screen at the RGC meeting for Council Members’ scrutiny and approval. Council Members who have submitted applications in the exercise are excused from the conference room.

For research funding schemes for single Principal Investigators, given the large number of recommended projects involved in the funding schemes for single Principal Investigators (over 1,000 per exercise), the more details on the recommended projects to be provided at the Council meeting, the more

complicated the second-tier declaration will have to be managed and the longer the meeting will take. The Council is therefore not given a list of recommended projects. Starting from June 2015, to avoid any perceived conflict of interest, Council Members who have submitted applications in the exercises are excused from the conference room.

To enhance RGC's operations and address the need to provide more details of recommended projects to the Council, the Secretariat consulted the RGC at its meeting held on 10 December 2016. The RGC decided that, starting from the next meeting (June 2017), the list of recommended projects under funding schemes for single Principal Investigators containing project titles, recommended duration and recommended amount will be provided to Council Members for scrutiny and approval.

The Review of the RGC (Phase II) will examine, amongst others, the assessment and monitoring processes and the arrangement guarding against conflict of interest. It will provide further insight to facilitate the RGC in refining the approving procedures in future.

- 5. According to paragraph 2.19(b), given the large number of recommended projects under some of the research funding schemes, the more details on the recommended projects to be provided at the Council meetings, the more complicated the second-tier declarations will have to be managed and the longer the meeting will take. A reasonable balance is required to be struck among the objectives of providing detailed list of recommended projects to be provided, the integrity of the declaration of interest procedures and the efficiency of Council meetings. How will you strike the balance without compromising the integrity of the approval process? What measures will you take for improvement in this regard?**

- A5. To address the Audit concern, the Secretariat consulted the RGC at its meeting held on 10 December 2016. The RGC decided that, starting from June 2017, the list of recommended projects under funding schemes for single Principal Investigators containing project titles, recommended duration and recommended amount will be provided to Council Members for scrutiny and approval.

The Review of the RGC (Phase II) will examine, amongst others, the

assessment and monitoring processes and the arrangement guarding against conflict of interest. It will provide further insight to facilitate the RGC in refining the approving procedures in future.

6. With reference to paragraph 2.20, the measures that the UGC Secretariat has taken to ensure that members are well-informed on the requirements of the reporting system for the declarations of interests. Are there briefing and training courses for the members?

A6: We issue a Secretary-General's Note on "Declaration of Interest by Members" to Members on their first appointment. The note serves to explain and remind Members the mechanism of declaration of interest by Members under the University Grants Committee, RGC, Quality Assurance Council and their respective sub-committees. The RGC also organised two briefing sessions in November and December 2016 respectively for newly appointed RGC Members on the RGC organization and on-going issues, including declaration of interest. We will continue to hold briefing sessions for new RGC Members in the future. At the RGC meeting held on 10 December 2016, there was an agenda item on the Audit's Report on "Funding of Academic Research Projects by RGC." Members had thorough discussion on, amongst others, improvement measures to matters concerning the declaration of interest.

7. With reference to paragraph 2.20(a), the definition of "significant change of circumstances" in the first-tier reporting system.

A7. At the first-tier, Members are required to declare interests in the following areas:

- (a) Proprietorships, partnership or directorship of companies, public or private;
- (b) Remunerated employments, offices, trades, professions or vocations;
- (c) Affiliation with local education bodies, e.g. higher education institutions; and
- (d) Shareholdings in companies, public or private (e.g. 1% or more of the company's issued share capital).

Changes in circumstances refer to changes in the abovementioned areas. For example, changes in affiliation with local universities can be classified

as significant changes. Nevertheless, Members have the responsibility to decide whether the change is material to an extent that it should be reported under the first-tier declaration.

- 8. According to paragraph 2.26, Audit reviewed the 3 314 projects approved in the period 2013-2014 to 2015-2016 in respect of the General Research Fund, the Early Career Scheme and the Humanities and Social Sciences Prestigious Fellowship Scheme, and noted that for six projects, the principal investigators were four Council members. However, no documentation was available showing that declarations of interests had been made before or during the meetings at which funding was awarded. According to Table 2 in paragraph 1.10, there were in total 4 400 projects approved in the same period. Were there other projects among the remaining 1 086 projects which were associated with some Council members who did not make declarations of interests before or during the meetings at which funding was awarded?**

- A8. The remaining 1 086 projects were funded under the Hong Kong PhD Fellowship Scheme (in terms of number of awardees), Post-graduate Students Conference/Seminar Grants, collaborative research funding schemes, joint research schemes and funding schemes for the self-financing sector.

The Hong Kong PhD Fellowship Scheme and Post-graduate Students Conference/Seminar Grants cater for potential / current PhD students. Funding schemes for the self-financing sector cater for researchers in the self-financing sector. Council Members are not eligible to apply to these schemes and hence, no conflict of interests would be involved.

For the collaborative research funding schemes, only non-local academics are involved in the assessment of grant applications. For joint research schemes, Assessment Panel Members are required to declare interest before they participate in the assessment of grant applications. In all circumstances, Assessment Committee / Panel Members are barred from assessing applications in which they have declared interest.

The RGC serves its fiduciary and oversight duty to ensure that its Assessment Committee and Panels perform its functions without conflict of interests and exercise prudence in its expenditure of funds. Before June

2015, the Council considered the reports of the Assessment Committee / Panel Chairmen and they did not contain details of individual applications, including the identity of the applicants. As there was no actual conflict of interest, the Council did not request individual Members to make declaration of interest at the meetings when the Assessment Committee / Panel Chairmen reports were discussed.

That said, the RGC was aware that there might be perceived conflict of interest in the past practice. To address the perception, starting from June 2015, when the Council received the reports from the Assessment Committee / Panel Chairmen, Council Members were excused from the conference room and they refrained from participating in the discussion if they had submitted applications.

- 9. According to paragraph 2.28(a) and (e), the UGC Secretariat will enhance measures to closely monitor the timely submission of Register of Interests Forms in the first-tier declarations of interests, and will further improve the filing of documents concerning the declarations of interests by members. What measures have been taken so far to enhance the existing mechanism?**

A9: The Secretariat issued reminders again to expedite action from the Members who did not return the Register of Interests Form. The Secretariat also invited the Members concerned to complete the Register of Interests Form when they attended the RGC meeting in person on 10 December 2016. Full set of Members' Register of Interests Form from the 2013/14 academic year onwards are filed by year in folders for easy retrieval. They are also backed up electronically to ensure that they are available for future reference.

- 10. According to paragraph 2.28(d), starting from June 2015, in view of Council members' awareness of the need to guard against any possible perceived conflicts of interest, improvements have been made to invite any Council members whose applications are under consideration at the time to leave the conference room and not to take part in the discussion of the item. According to paragraph 2.24, there are other circumstances in which Council members are associated with the applications under consideration (e.g. applications from colleagues in their departments/universities, universities that they have served within**

two years, or universities that they have been invited for pre-review). What measures will you take to ensure that such perceived conflicts of interest are fully addressed?

- A10. There are circumstances in which Council Members also serve as Assessment Committee / Panel Members to assess grants applications. If they are associated with the applications, even if they are not the applicants themselves, they cannot take part in the decision-making on the cases concerned. They are also required to fill in declaration of interest forms when they declare interest during the meetings for record purposes. RGC will consider how to reflect these prevailing arrangements in the “Rules of Procedures” that are currently being prepared to ensure that there is no actual or perceived conflict of interest.

The Review of the RGC (Phase II) will examine, amongst others, the assessment and monitoring processes and the arrangement guarding against conflict of interest. It will provide further insight to facilitate the RGC in refining the assessment and approving procedures in future.

Part 3 : Project management

- 11. With reference to paragraph 3.14, what is the membership composition of the Steering Committee of the Theme-based Research Scheme (“TRS”)? Will the members possess suitable knowledge and experience to decide the suitable theme to conduct academic research? Did RGC review the factors contributing to the decreasing number of applications under TRS?**

- A11. Members of the Steering Committee include community leaders, distinguished academics as well as officials from relevant Government bureaux/departments who possess the relevant expertise and knowledge to advise on the selection of appropriate themes under the Theme-based Research Scheme (TRS) conducive to the long-term and strategic development of Hong Kong. As at 1 January 2017, the membership of the Steering Committee for Research Themes under the Research Endowment Fund was as follows:

Chairman

Dr. York LIAO, SBS, JP

Members

Mr. KWOK Kwok-chuen, BBS, JP

Professor Paul LAM Kwan-sing, SBS, JP

Professor Joseph LEE Hun-wei

Chairman of Research Grants Council or his representative

Head of Central Policy Unit or his representative

Commissioner for Innovation and Technology or her representative

Secretary for Education or his representative

Secretary

Principal Assistant Secretary for Education (Higher Education)

As regards the number of applications, it is common for a new funding scheme to receive a relatively high number of applications in the first round of application because of the pent-up demand. As a number of academics have already been involved in the on-going group research projects, including TRS and the Areas of Excellence Scheme, it could be envisaged that the number of applications received in the subsequent rounds of the TRS exercise would not be as many as that in the first round. The RGC will continue to keep the grand challenge topics of the research themes under regular review and liaise with the Education Bureau on the timing to initiate the next review on the themes under TRS.

- 12. According to paragraph 3.32, for completion and concluding reports, RGC did not set target completion dates for committee/panel members' assessment. As at 31 May 2016, there had been 973 completion/concluding reports received but not assessed, of which 678 (69.7%) had been received for over one year but not yet assessed. In extreme cases, 4 (0.4%) reports were submitted more than nine years ago but still pending assessment. What is the reason for the backlog on assessment of project reports received? How can you monitor the research quality of the RGC funded projects in a timely manner given such a large number of completion/concluding reports pending assessment?**

- A12. The RGC relies on the Committee / Panel Members to assess the completion / concluding reports. Members are academics of high international stature with busy schedules. They may have commitments that take priority over

assessment of reports. In the event that the Member-in-charge has retired from the Committee / Panel when the completion / concluding report is submitted by the Principal Investigator, extra processing time is required for the Committee / Panel Chairman to identify and re-assign the duty to other available Members.

Principal Investigators are required to submit annual or mid-term progress reports for the purpose of monitoring progress and research quality. The large backlog is not conducive to monitoring of research projects. The Secretariat consulted the RGC on 10 December 2016. The following improvement measures will be implemented to improve the situation:

Improvement Measures	Implementation Time-table
Conduct a one-off ad hoc exercise to clear the backlog by forming a panel to rate the outstanding completion and concluding reports	1 st quarter of 2017
Set deadlines of target completion dates for Committee / Panel Members' assessment of progress reports (one month) and completion reports (two months)	Deadline now set
Issue reminders to Members on a monthly basis	January 2017
Reserve a dedicated session in the Subject Panel meetings held in every June for Members to rate the outstanding reports in the Secretariat	June 2017

- 13. According to paragraphs 3.48(a), the UGC Secretariat would consult RGC to consider setting target completion dates for panel members' assessment of progress, completion and concluding reports as well as strengthening measures to clear the backlog and enhance timely assessment of reports by panel members. What has been achieved so far?**

A13. The Secretariat consulted the RGC on 10 December 2016. The following improvement measures will be implemented to improve the situation:

Improvement Measures	Implementation Time-table
Conduct a one-off ad hoc exercise to clear the backlog by forming a panel to rate the outstanding completion	1st quarter of 2017

and concluding reports	
Set deadlines of target completion dates for Committee / Panel Members' assessment of progress reports (one month) and completion reports (two months)	Deadline now set
Issue reminders to Members on a monthly basis	January 2017
Reserve a dedicated session in the Subject Panel meetings held in every June for Members to rate the outstanding reports in the Secretariat	June 2017

14. With reference to paragraphs 3.49 to 3.55, the measures to be taken to expedite the process in handling alleged misconduct cases. Are there any mechanisms in place to ensure that disciplinary hearings on cases involving fraud and dishonest act (and where such cases are established) will be reported to the appropriate regulatory authority and/or the law enforcement agencies?

A14. Since the setting up of the Disciplinary Committee (DC) in December 2013, the RGC has reviewed the structure of the DC and the investigation procedures from time to time with a view to ensuring that each alleged misconduct case would be thoroughly and fairly handled before a decision is made. On identifying a suspected misconduct case, the case will be handled and referred to the DC (Investigation) as soon as possible. We will report serious cases, e.g. cases involving deliberate fraud to law enforcement. We have done so in the past. We will seek legal advice where necessary. For cases involving non-disclosure or plagiarism, we will handle them according to RGC's established mechanism.

The Review of the RGC (Phase I) is currently being conducted to examine amongst others, including the structure of DC. In the light of the results of the review, appropriate measures will be considered to further streamline the process of handling alleged misconduct cases.

Part 4 : Research output and way forward

15. According to paragraphs 4.7 and 4.8, from 2010-2011 to 2014-2015, while research funding provided by UGC and RGC increased by 26%, the total number of research outputs of the universities dropped slightly to 2.6% and the overall research output per academic staff for the universities decreased by 9%. Have you ascertained the reasons for

the drop in the number of research outputs and the overall research output per academic staff? As this statistical information on research output is submitted to the UGC members, has any UGC member raised any concern on the decrease in the number of research outputs? Have you taken any measures to address this issue?

- A15. The research outputs mentioned in paragraphs 4.7 and 4.8 include various types of outputs, such as conference papers, journal publications, patents, scholarly books, monographs and chapters, etc. With regard to the decrease in the total number of research outputs and the overall research output per academic staff from 2010/11 to 2014/15, this may be attributed to the introduction of the "3+3+4" new academic structure in 2012/13, which involved significant amount of preparatory work for universities and academic staff in 2011/12 and 2012/13, and a significant increase (6.5%) in the number of academic staff between 2010/11 and 2014/15. Further, when the 26% increase in the research funding provided by the UGC and RGC between 2010/11 and 2014/15 was adjusted for inflation during the period, it only represented an increase of about 3.2%, despite a 6.5% increase in the number of academic staff for the same period. The relevant statistical information on research output has been presented to the UGC Members, none of whom has raised any concern about the decrease in the number of research outputs.

In assessing the research performance of universities, the UGC Secretariat would emphasize that research outputs should not be taken as the sole performance indicator of research funding, and any analysis on research output per academic staff as an indicator of universities' research productivity is extremely crude and unreliable. It only measures quantity but neglects quality which is a much more important criterion in assessing research output. The resources and efforts put to produce respective output also vary amongst research projects of different nature, scope and scale. A more sophisticated, comprehensive and appropriate assessment is the Research Assessment Exercise (RAE) which covered, amongst others, the number of eligible staff in cost centres. In the RAE 2014, the quality of research outputs, research inputs and esteem measures were assessed. The UGC is actively planning for another RAE in 2020 with the inclusion of research impact as one of the elements of assessment.

- 16. According to paragraph 4.17(b), the UGC Secretariat will provide full**

support to RGC in developing performance indicators to evaluate the performance of funding schemes and formulating guidance notes to help information users in the interpretation of the research-related information. What has been done so far?

- A16. Research output is only one of the various indicators for evaluation of research performance. That said, the RGC has been collecting research output and other management information of approved projects under the RGC funding schemes for monitoring and assessment of approved projects and sharing the research findings with the public. The Review of the RGC (Phase I) is currently being conducted to examine, amongst others, the effectiveness of the RGC funding schemes. The consultant will explore if the research-related information can be used to develop performance indicators to evaluate performance of funding schemes.

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23 January 2017

Mr Anthony Chu
Clerk
Public Accounts Committee
Legislative Council
Legislative Council Complex
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Central
Hong Kong

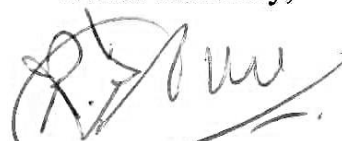
Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 6 of the Director of Audit's Report No. 67
Funding of Academic Research Projects by Research Grants Council

I refer to your letter dated 16 January 2017 requesting us to provide information related to the handling of alleged misconduct cases. The requested information is now set out at the **Annex** for reference by the Public Accounts Committee. As requested, my colleagues will send you soft copies of the information by email.

Should you need further clarifications on the above, please feel free to contact Mr David Leung, Deputy Secretary-General (2) on 2844 9942.

Yours sincerely,



(Richard T ARMOUR)
Secretary-General

c.c. 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)

Public Accounts Committee
Consideration of Chapter 6 of the Director of Audit's Report No. 67
Funding of Academic Research Projects by Research Grants Council

Replies to Written Questions

For the Secretary-General, University Grants Committee

Part 3 : Project management

- 1. The mechanism, including the guidelines on the procedures and performance pledges, in handling alleged misconduct cases, such as plagiarism, related to the Research Grants Council (“RGC”) funded projects and those discovered during the processing of the funding applications and the level of penalty for the substantiated cases.**

A1. The RGC attaches great importance to research integrity. Researchers are expected to observe the highest standard of integrity in the conduct of their researches funded under the funding schemes administered by the RGC. Any research improprieties found will be dealt with seriously. To this end, the RGC has set up three Disciplinary Committees (DCs) to handle alleged research improprieties, namely DC (Investigation), DC (Penalty) and DC (Appeal). The DC (Investigation) oversees the conduct of investigations of cases arising from allegations; the DC (Penalty) determines the level of penalty for substantiated cases; and the DC (Appeal) handles appeal cases if they arise. Each of the DCs comprises five overseas members, including three non-RGC / Panel / Committee members and two non-local RGC and / or lay members. The membership lists of the three DCs are available on the RGC's website.

For each alleged impropriety case, the DC (Investigation) will appoint an Investigation Working Group (IWG), which normally comprises three RGC / Panel / Committee members who are distinguished scholars, experts in the subject area and who are familiar with the RGC assessment procedures. The IWG will impartially examine the written representations of the respondent and related parties, the research proposals and the institutional investigation report, which usually includes expert evidence, interview records and other

relevant documents. The IWG will carefully consider the evidence to come to a view. After considering the findings and views of the IWG, the DC (Investigation) will make its recommendations to the RGC for decision. Cases found substantiated by the RGC will be forwarded to the DC (Penalty) for consideration on the level of penalty. The DC (Penalty) will take into consideration a number of factors pertinent to the case, including the nature and gravity of the impropriety, level of penalty of precedent cases and any other mitigating factors, etc. and make a recommendation to the RGC on the penalty level. The levels of penalty range from warning letter, disqualification of the related funding application, to debarment from all RGC research funding schemes for one to five years.

If the researcher of a substantiated impropriety case is not satisfied with the RGC's decision, he / she may appeal within 14 calendar days from the date of receipt of the RGC's notification. For every appeal case, the DC (Appeal) will appoint an Appeal Board comprising three or more RGC / Panel / Committee members with membership different from that of the IWG to examine the case. After considering the report submitted by the Appeal Board, the DC (Appeal) will make its recommendation to the RGC on whether the previous decision should be upheld, overturned or modified. The decision of the RGC will be final.

According to the RGC guidelines, if any DC member has perceived conflict of interests with the researchers being investigated, the DC member concerned should be excused from the relevant meeting and should not participate in the discussion. If any IWG / Appeal Board member has perceived conflict of interests, the DC (Investigation) / DC (Appeal) will appoint another member as replacement.

2. With reference to Table 17 in paragraph 3.53 of Chapter 6 of the Audit Report, the follow-up actions taken / penalties imposed on the 19 substantiated cases.

A2. A total number of 28 researchers were involved in the 19 substantiated cases. The penalties imposed on them are as follows:

Nature	No. of cases	No. of researchers involved	Penalty (No. of researchers)
Non-disclosure of similar / related projects in the application form	6	7	<ul style="list-style-type: none"> • Disqualified in the related funding exercise (1) • Disqualified and debarred from all RGC research funding schemes for one year (4) • Disqualified and debarred from all RGC research funding schemes for five years (2)
Non-disclosure of relationship with nominated reviewers	10	18	<ul style="list-style-type: none"> • Disqualified in the related funding exercise (11) • Disqualified and debarred from all RGC research funding schemes for one year (5) • Disqualified and debarred from all RGC research funding schemes for two years (2)
Plagiarism	3	3	<ul style="list-style-type: none"> • Disqualified and debarred from all RGC research funding schemes for two years (1) • Disqualified and debarred from all RGC research funding schemes for three years (1) • Disqualified and debarred from all RGC research funding schemes for five years (1)
Total	19	28	

3. Whether the investigation report and / or the results of investigation on the cases in (1) above would be made available to the public, such as uploading on the University Grants Committee's website, with a view to enhancing public accountability and transparency of RGC's handling of alleged misconduct cases. If yes, details of the existing arrangements; if no, the reasons for that.

A3. At present, alleged misconduct cases involving RGC grants, which are public money, and reported to the RGC are handled on a confidential basis and the investigation reports are not published. That said, we agree that there is a need to enhance public accountability and transparency of the RGC's handling of such cases. Starting from January 2017, we will upload the related guidelines and procedures on the RGC's website.

Looking ahead, we will also consult RGC on whether and how to further enhance public accountability and transparency, with reference to the practices of international research funding bodies. Possible measures that we might explore with RGC include:

- (a) publishing statistics on RGC's handling of alleged misconduct cases; and
- (b) publishing gists of RGC's decisions on misconduct cases (with the names of individuals involved redacted if necessary).

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環境保護署總部

香港添馬
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(Urgent by fax 2856 9902)

Mr Anthony CHU
Clerk to Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road, Central
Hong Kong

3 January 2017

Dear Mr Chu,

Public Accounts Committee

Consideration of Chapter 8 of the Director of Audit's Report No. 67

Sewerage systems in rural areas

Thank you for your separate letters dated 20 December 2016 to Secretary for the Environment and Director of Environment Protection. I am authorised to provide a consolidated bilingual response from Environment Bureau and Environmental Protection Department in respect of the matters related to the captioned Report as per attached at **Annex**.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Daisy LO', written in a cursive style.

(Daisy LO)

for Director of Environmental Protection

Encl

- c.c. Director of Drainage Services (fax no. 2827 0287)
- Director of Food and Environmental Hygiene (fax no. 2524 1977)
- Director of Lands (fax no. 2525 4960)
- Secretary for Financial Services and the Treasury (fax no. 2147 5239)
- Director of Audit (fax no. 2583 9063)

**Questions and Request for Information in respect of
Chapter 8 of the Director of Audit's Report No. 67
Sewerage systems in rural areas**

**Response from Environment Bureau and Environmental Protection
Department**

Questions to be responded

PART 2: POLLUTION CONTROL IN UNSEWERED AREAS

1. High *E.coli* levels in many water control subzones

- (a) Do the Environment Bureau ("ENB") and the Environmental Protection Department ("EPD") agree that, as reflected by the data in paragraphs 1.9 and 2.5 and Appendices A and B, discharge of untreated sewage from unsewered villages was a source of high *E. coli* levels in the rivers in the proximity? Taking into account the extremely large number of *E. coli* in many water control zones, do ENB and EPD agree that the river monitoring stations which were funded and operated by the Administration had failed to achieve the corresponding results as the discharge of untreated sewage from unsewered villages had all along rendered the safeguards for protecting the public from the risk of exposure to disease-causing microorganisms ineffective? If so, when will the Administration take measures to address the problem and details of these measures?

Response:

Environmental Protection Department (EPD) has implemented the Water Pollution Control Ordinance (WPCO) (Cap 358) and the Livestock Waste Control Scheme, and formulated 16 Sewerage Master Plans (SMPs) for the whole territory in 1980s. Through environmental law enforcement and implementation of the above schemes and plans, Hong Kong's water environment has been improved progressively. In 2015, 82% of our rivers were graded "Good" or above, compared with only 35% in 1986. The *E. coli* level of our rivers has also been reduced by 80% as compared with that in 1980s. The pollution load of most major rivers had been largely reduced by up to 96%.

Internationally, various parameters have been adopted for water quality protection due to different scientific considerations. Water Quality Objective (WQO) on *E. coli* is only one of the parameters used for water quality protection. Its main function is to safeguard the water bodies used for potable-water abstraction as well as primary-contact and secondary-contact recreational uses (such as swimming and rowing). The river water bodies in rural areas with high *E.coli* levels mentioned in the Audit Report are not intended for such uses. Hence, the human health risk due to the exposure to pathogens in these water bodies associated with the *E.coli* level higher than the WQO is not as important as the water bodies used for potable water abstraction or water sports activities involving human contact. All gazetted beaches which had been closed in the past due to high levels of *E. coli* have been re-opened as a result of the water quality improvements and full compliance with the required water quality standard for bathing

beaches.

Provision of public sewers to unsewered villages is one of the various means to further reduce the *E.coli* level in the nearby rivers. EPD will continue to pursue a multi-pronged approach to improve the water quality of the nearby rivers in the most efficient and cost-effective manner. Measures include strengthening the vetting of the design and performance of septic tank and soakaway (STS) systems for new village houses during the planning stage; taking enforcement actions against polluting STS systems; planning and implementing Village Sewerage Programmes in light of the available resources and the local situation; considering the provision of dry weather flow interceptors (DWFIs) at high risk or polluting areas; providing public toilets at unsewered rural areas; and arranging the cleansing of surface drainage systems, etc..

2. Problems of septic-tank-and-soakaway (“STS”) systems

- (a) Please explain the situation mentioned in Note 12 to paragraph 2.19. What were the details of the 24 projects mentioned in paragraph 2.19(c) and their respective project estimates? Can the Administration provide the project estimates of similar works for reference and comparison?

Response:

The total Approved Project Estimates (APEs) for the 24 projects under the Village Sewerage (VS) Programme is about \$8 billion (in money-of-the-day prices). Apart from the works inside individual villages, the APEs also included costs for constructing trunk sewers, sewage pumping stations and sewage treatment works outside the villages, as well as other general expenditures such as site staff salary and consultancy fees, etc. As these projects involved about 40 work contracts, it would require substantial amount of resources and time for Drainage Services Department (DSD) to separate the costs solely related to the VS works from the APEs. Hence, having discussed with the Audit Commission (AC), DSD did not provide the APEs solely related to VS works as per AC's request. Please refer to **Table 1** for details of the 24 projects and their related APEs. Besides, since the scope, nature, works areas, construction time and requirements for each individual project are different, it is impracticable to provide the project estimates of similar works for reference and comparison.

- (b) Would EPD and the Lands Department ("LandsD") explain whether manpower shortage was the cause for the failure to complete the work mentioned in paragraph 2.21(b)? If so, whether the problem could be ameliorated by providing additional manpower? If it could not, what were the reasons for not establishing a database or a register and not preparing a map of villages?

Response:

EPD considers the consultant's recommendation of setting up a database and arranging regular inspection of the STS systems of each of the 80,000 village houses in Hong Kong would require substantial manpower and extensive resources, which is not cost-effective and may result in over-regulation and nuisance to the villagers. As mentioned above, EPD will continue to pursue a multi-pronged approach to improve the river water quality in the most efficient and cost-effective manner. We consider it more appropriate and

cost-effective to improve water quality by strengthening the vetting of design and performance on STS systems of new village houses during planning stage; and taking enforcement actions against the polluting STS systems; installing DWFIs or other water quality improvement facilities at suitable locations, as well as implementing village sewerage programmes progressively.

- (c) Can EPD advise why it did not have readily available information on the number and conditions of all dry-weather-flow interceptors ("DWFIs") being installed for unsewered village houses and squatters, as set out in paragraph 2.22(a)? Can EPD provide the aforesaid information now? What are the installation cost, annual expenditure and maintenance cost of each DWFI? Why had EPD not conducted a comprehensive assessment on the performance and effectiveness of all DWFIs in controlling pollution? Are there any measures in place to monitor the installation efficiency of DWFIs contractors? If so, what are the details?

Response:

Regarding the remarks in the Audit Report that EPD did not have readily available information on the number and conditions of all DWFIs being installed for unsewered villages and squatters, the information and data requested by the Audit contradicts our professional pollution control philosophy and analytical methods. As mentioned above, EPD has adopted a multi-pronged approach to improve water quality in the most efficient and cost-effective manner. The installation of DWFIs is one of the effective measures to improve water quality. As it requires substantial amount of resources and data analysis to assess every DWFIs being installed for unsewered village houses and squatters throughout Hong Kong, EPD does not have readily available information in this regard.

Primarily, EPD takes into account the recommendations of the SMPs, the downstream river water quality and beneficial uses of water bodies, and whether the best results can be achieved in the most cost-effective manner when deciding on the installation of DWFIs to divert the polluted flows from rivers or storm drains to foul sewers. This approach has been used in many locations (including bathing beaches in various districts, Shing Mun River and Tuen Mun River) to tackle pollution arising from unsewered areas covering squatters. This approach has been proved to be effective. With our continuous efforts made since 1980s, the number of gazetted beaches graded as "Good" has increased from 23% in 1986 to 61% in 2015. Moreover, all gazetted beaches in Hong Kong have achieved the bacteriological WQO since 2010. The water quality of rivers in Hong Kong has also been improving continuously in recent years. Based on the Water Quality Index (WQI), 48% were graded "Excellent" and 34% "Good" in 2015, as compared with only 9% "Excellent" and 26% "Good" in 1986. Among which, the water quality of the main channel of Shing Mun River in Shatin has been graded "Excellent" since 2008 while compliance with the WQO on *E. coli* was 75% in 2015. Besides, the *E. coli* level of Tuen Mun River has also been significantly reduced by 90% as compared with 1988. DWFIs have also been installed in coastal areas like Jordan Valley, Kai Tak for diverting polluted flows from storm drains to foul sewers. There are currently about 130 DWFIs in operation in Hong Kong, of which around 40 are installed in unsewered village houses and squatter areas. In future, we will install about 11 DWFIs in Yau Ma Tei and Tsuen Wan to further improve the environment.

In general, the cost of installing DWFIs for unsewered village houses varies according to their location, coverage and individual design. While the maintenance cost is relatively low, DSD does not have a breakdown of the recurrent maintenance expenditure of the DWFIs or other sewerage facilities.

- (d) Does the Administration agree that the contents of the Water Pollution Control Ordinance (Cap. 358) ("WPCO") referred to in paragraphs 2.24(a) and (b) are contradictory? What were the justifications for introducing the amendments then to WPCO to make licensing non-mandatory requirement for sewerage works? What were the respective staff establishments for discharging licensing and enforcement functions in enforcing WPCO? Does the Administration agree that in the absence of mandatory control on the installation and operation of STS systems, EPD could not effectively control and prevent pollution caused by STS systems to the nearby rivers and environment? Did it involve a mismatch of resources in which public money had been wasted on manpower and operation without achieving results? If so, what were the details?

Response:

STS system is a cost-effective device commonly used by village houses in the rural areas of Hong Kong and other places. STS systems, if designed, operated and maintained properly, can effectively control pollution. As mandatory certification schemes are usually implemented to control major pollution sources, the licensing of STS systems is therefore not mandatory under the WPCO (Cap. 358). We consider that mandatory licensing and regular inspections of the small STS systems of some 80,000 village houses in Hong Kong require substantial resources and a large team of enforcement staff, which may also lead to over-regulation and nuisance to the villagers. It is more appropriate and cost-effective to improve water quality by strengthening the vetting of design and performance on STS systems of new village houses during planning stage; taking enforcement actions against polluting STS systems; installing DWFIs or other water quality improvement facilities at suitable locations as well as implementing village sewerage programmes progressively. As mentioned above, the Government will continue to pursue a multi-pronged approach to improve water quality in the most efficient and cost-effective manner, which has brought significant improvement in the overall water quality of Hong Kong.

- (e) Regarding the situation mentioned in paragraph 2.28, what is the Administration's view on the effectiveness of the licensing scheme provided under WPCO? Had the Administration reviewed or identified the reasons for the low number of licenses issued? If it had, what were the details? For how many years had WPCO not been amended? Will the Administration examine and refine WPCO so that it can keep pace with the existing policies with a view to ameliorating the water pollution problem more effectively? Can existing policies/measures ensure effective operation of septic tanks, and what are the details?

Response:

Since licensing of STS systems is not mandatory under the WPCO (Cap. 358), there is no direct relationship between the number of licences issued and the effectiveness in pollution control. As mandatory certification schemes are usually applied for major pollution sources, we have no plan to make the licensing of STS systems of individual

village houses mandatory. STS systems, if designed, operated and maintained properly, can effectively control pollution. To avoid STS systems causing pollution to the nearby rivers and environment, EPD has issued the Guidance Notes on Discharge from Village Houses to help villagers operate their STS systems. Upon receipt of pollution complaints, EPD will inspect the STS systems and request the owners to make improvements. If there is no improvement and there is evidence of pollution to the nearby water bodies, EPD will consider taking legal actions.

As mentioned above, there are more efficient and cost-effective ways to improve water quality, which has brought significant improvement in the overall water quality of Hong Kong.

3. Requirements for some STS systems not on par with EPD practice note

- (a) According to paragraph 2.36 and Table 1 in paragraph 2.37, the village-house sewerage requirements stipulated under a certificate of exemption ("CoE") issued by LandsD for pertinent drainage works in the New Territories were more lax than those stipulated under the "Drainage Plans subject to comment by EPD" issued by EPD in 1993 ("the 1993 Practice Note"), would the Administration explain the reasons for that? In connection with the above, does the Administration agree that the CoE conditions stipulated by LandsD were less effective than those stipulated under the 1993 Practice Note in preventing STS systems from polluting the environment? Please advise why the two departments did not standardize the aforesaid guidelines at the outset. Is there or will there be room for standardizing these guidelines? If so, please advise on the relevant details and timetable. If not, what are the reasons?

Response:

The two sets of guidelines, namely "Drainage Plans subject to Comment by the EPD" Practice Note for Professional Persons 5/93 (1993 Practice Note) issued by EPD in 1993, and the Certificate of Exemption (CoE) issued by the Lands Department (LandsD) for pertinent drainage works in the New Territories, are applicable to two different situations as set out below.

(i) Under the Buildings Ordinance (Chapter 123), developers are required to engage Authorized Persons (APs) to prepare and submit drainage plans to the Building Authority. To help APs in the design and preparation of drainage plans and facilitate the Building Authority in vetting and approving these plans, EPD promulgated the 1993 Practice Note to cover different types of pollution sources, including large-scale estates and small-scale villas. This Practice Note provides guidance on the design, construction and maintenance of STS, including percolation test and certification by an AP.

(ii) As New Territories Exempted Houses (NTEHs) are exempted from the Buildings Ordinance (Chapter 123), LandsD has set out separate technical requirements applicable to NTEHs when exercising its authority under the Buildings Ordinance (Application to the New Territories) Ordinance (Chapter 121).

Owing to site constraints, most applicants for redeveloping individual village houses had encountered practical difficulties in finding suitable locations for construction of STS

systems in conformation with the 1993 Practice Note. As a result, LandsD would consult EPD where necessary and set out appropriate requirements based on the actual situations. With proper operation and maintenance, STS systems built in accordance with the conditions of CoEs issued by the LandsD can also prevent environmental pollution effectively.

LandsD and EPD had set up a working group to review and explore how and in what aspects the variations between the two sets of requirements can be eliminated or reduced. The working group will accord priority to the aspects listed in Table 1 appended to paragraph 2.37 of the Director of Audit's Report and come up with recommendations as soon as possible.

- (b) In connection with paragraph 2.38(i), can the Administration advise on the time required for completing the whole application process under normal circumstances? What were the respective numbers of successful and unsuccessful applications in the past? Had the Administration reviewed the administrative work involved in the whole application process to see if any parts of the process could be dispensed with so that the applications could be handled more promptly and efficiently?

Response:

EPD is responsible for the assessment of the soil percolation test report. Since the implementation of the new measure in December 2014, EPD has handled 6 applications in Hoi Ha referred by LandsD, among which 5 have been processed and approved. It took around 1 to 7 months to process the above applications. Some individual cases require longer processing time, mainly because the applicants had to provide supplementary information not included in the test reports. EPD has provided guidelines on the content and format of test reports to help reducing the processing time.

4. No licences issued for desludging of septic tanks and disposal of excretal matter

- (a) Please provide the reasons why the 78 private operators mentioned in paragraph 2.47 had not been issued with licences, and advise whether they might operate the business only if they had been issued with licences. What was the total number of licence applications made to the Department for provision of septic tanks desludging and excretal-matter disposal services? What is the current number of licensed private operators? If an operator operates the aforesaid business without a licence, what actions and measures will the Administration take to combat and improve the situation?

Response:

Section 9 of the Waste Disposal Ordinance (Cap. 354) authorises the "Collection Authority" to provide collection service including desludging of septic tanks. Section 10 authorises the "Collection Authority" to set up a licensing system whereby licence can be issued to any person who provides collection service including desludging of septic tanks as mentioned in Section 9. The "Collection Authority" includes the Food and Environmental Hygiene Department (FEHD) and EPD.

In the past, due to limited collection services available in the market, apart from providing collection service for desludging of septic tanks, FEHD also provided charged

service where feasible for a few private premises at cost. With service from the market becomes available, FEHD now only provides service for government premises. The services required for private premises are provided by the market.

In light of the nature of various wastes, the Government has set up a licensing system for collection of chemical waste and clinical waste. However, as the sludge from septic tanks is not hazardous waste, there is no requirement for obtaining a licence for desludging of septic tanks. Currently, private operators do not require a licence to provide desludging services. They must, however, handle the sludge of septic tanks properly or else they will be prosecuted for illegal dumping. So far, there was no serious case of illegal dumping of septic tank sludge according to our records. We had one successful conviction involving fly-tipping of sludge of septic tanks over the past three years with a fine of \$10,000 to the person involved.

EPD and FEHD will follow up on the Audit's recommendations on stepping up the Government's monitoring of desludging of septic tanks and will consult the relevant trades on the way forward as appropriate. EPD is compiling a list of private operators. Upon receipt of the operators' consent, it will be uploaded to the website and updated progressively for public's information.

5. Ineffective action taken to prevent illegal dumping of excretal matter

- (a) What is EPD's view on the effectiveness of installing surveillance cameras as mentioned in paragraph 2.53? For cases of unsuccessful prosecution, was it due to a lack of resources to procure sufficient cameras, or were there other reasons? If EPD and the Food and Environmental Hygiene Department ("FEHD") continue to adopt this approach of installing surveillance camera systems at more blackspots of illegal dumping of waste, including excretal matter, what are the estimated costs?

Response:

The "Pilot Scheme on Installation of Surveillance Cameras" aims to explore a cost-effective enforcement approach for monitoring black spots for fly-tipping of construction waste. The initial observations revealed that the installation of surveillance cameras at black spots helps deterring fly-tipping of construction waste by vehicles. It also helps providing useful information for identifying the fly-tippers. In order to formulate an implementation plan, EPD is now conducting a comprehensive review on the information and experience obtained from the Pilot Scheme, exploring the enhancement of the technical specifications of the surveillance cameras, and making reference to the investigation and enforcement methods of other government departments. Regarding the Audit's recommendations, EPD will install enhanced surveillance cameras at selected black spots if manpower and resources are available to facilitate combating fly-tipping of construction waste. As the review of the relevant Pilot Scheme is still in progress, budget estimate is not available at present.

PART 3: PLANNING AND IMPLEMENTATION OF VILLAGE SEWERAGE PROGRAMMES

6. Need to prevent uncontrolled discharge of untreated sewage from residential squatters

- (a) Does EPD agree that the study reports mentioned in paragraph 3.5 served as sufficient proof that the lack of control on untreated sewage generated from squatters had caused pollution to the nearby rivers or water bodies? If so, what should be done to improve the situation?

Response:

Discharge of untreated wastewater generated in the squatters is one of the pollution sources in the river catchments. The Government will continue to pursue a multi-pronged approach to improve the water quality of the nearby rivers in the most efficient and cost-effective manner. Village sewerage programmes will be implemented in the light of available resources and the local situation. Provision of DWFIs at high risk or polluting areas and public toilets at unsewered rural areas, and cleansing of surface drainage systems will also be considered.

As mentioned above, the Government has implemented the WPCO and the Livestock Waste Control Scheme, and formulated 16 SMPs for the whole territory in 1980s to improve the water quality of Hong Kong. Through environmental law enforcement and implementation of the above schemes, the river water quality of Hong Kong has been significantly improved. In 2015, 82% of our rivers were graded “Good” or above, compared with only 35% in 1986. The *E. coli* level has also reduced by 80% as compared with that in 1980s. The pollution load of most major rivers had been largely reduced by up to 96%.

- (b) Can EPD advise on the reasons accounting for the slow progress of the works mentioned in paragraph 3.9? Which types of sewerage systems are being used by the 59% squatters in Squatter Area A which have not yet been connected to public sewers? In the aforesaid squatter area, were there any residents who had refused to carry out public sewerage connection works or were unaware of the commencement of the works? If there were, what were the respective numbers of such residents? Are there any squatters in the aforesaid squatter area for which public sewerage connection works are still underway? If there are, what is the number of such squatters and what are the reasons for that? Does EPD agree that it is unsatisfactory that, up to June 2016 when more than five years had passed since the completion of the relevant works, only 41% of the squatters in the area had been connected to public sewers? If so, how will EPD follow up and improve the situation?

Response:

Under the arrangement of the Village Sewerage Programmes, the Government is responsible for installing public sewers up to the boundaries of private land, and house owners need to connect their sewerage to the public sewers at their own cost. The sewer connection rate at Squatter Area A is low mainly because the residents expressed that they had encountered substantial financial and technical difficulties. The progress

of sewer connection works is therefore relatively slow.

Since the completion of the sewerage works, EPD has been proactively following up on the sewer connection works in that Squatter Area, including erecting promotion banners and sending letters to remind residents to carry out sewer connection works. Briefing sessions and home visits to the needy residents were arranged in collaboration with the local District Councilors, representatives of squatter residents and DSD with a view to explaining the benefits of sewer connection to environmental hygiene and residents, as well as providing technical assistance, etc.

With the above measures in place and the efforts of various parties, local residents in the Squatter Area A were all aware of the commencement of sewer connection works. We have also observed that local residents were helping each other to carry out sewer connection works progressively. The connection rate has been rising gradually to 41% over the past few years. In November 2016, the EPD issued letters again to remind the local residents to carry out sewerage works and received telephone inquiries from about 10 residents who indicated willingness or arrangement to carry out the connection works. If the sewer connection works were completed from the above residents, the connection rate will be further increased to 45%.

To control pollution caused by domestic sewage discharged from the Squatter Area to nearby streams, public toilets have been provided for use by squatter residents and regular cleansing of the related surface stormwater drains has been conducted to maintain environmental hygiene. A DWFI has also been installed downstream before entering the Tuen Mun River to divert the wastewater from the Squatter Area to the Tuen Mun Pillar Point Sewage Treatment Works for treatment. EPD will continue to step up publicity and strengthen collaboration with the local District Councilors to promote sewer connection.

7. Slippages in implementing village sewerage projects

- (a) Regarding the situation mentioned in Table 2 in paragraph 3.15 and paragraph 3.16, do EPD and the Drainage Services Department agree that the long delays in completing the village sewerage programmes did not only delay improvements to be made to village sewerage in rural areas, and the hygiene and environment problems caused by the less-than-satisfactory sewerage systems in these areas would persist? If so, how will the departments improve the situation?

Response:

The Village Sewerage Projects are one of our key efforts in improving river water quality. However, the planning and implementation of village sewerage is complex and difficult in general as it involves issues relating to private land resumption and technical difficulties associated with the laying of sewers in narrow and congested village passages. To reduce slippage due to objections from stakeholders, the Government will continue to maintain close liaison with village representatives and villagers, and to secure their support in aspects like technical design with a view to resolving diverged views as early as possible for the commencement of the project. With the support from DSD, EPD will implement the Village Sewerage Projects as soon as practicable subject to the availability of resources and the circumstances.

- (b) Would EPD advise whether the costs of Project A and Project B mentioned in paragraph 3.22 had exceeded their original Approved Project Estimates as a result of the delays? If so, what were the details? If not, what were the reasons for that?

Response:

Through controlling the expenditure of the concerned projects by DSD, the actual completion time of Projects A and B did not affect or cause exceedance of the original approved budget.

PART 4: SEWER CONNECTION OF VILLAGE HOUSES

8. Inadequate actions taken to cause house owners to carry out sewer-connection works

- (a) Table 5 of paragraph 4.7, Case 1, Case 2 and paragraph 3.9 only set out the details of sewer connection of the village houses in Village A, Village B and Squatter Area A. Can EPD provide the details of the sewer-connection works of Villages C, D and E, including the amounts of funding approved, and the reasons for not connecting to public sewers?

Response:

EPD has been continuously liaising with the village house owners to secure their support for timely and successful completion of house connection voluntarily. The overall connection rate, including villages which have sewer-connection works underway, was 88% (i.e. over 10 000 village houses connected). This indicates that this practice is very effective overall. However, the progress at a few locations is relatively low due to specific reasons. The total funding for the sewer connection works of Villages C, D and E is \$14 million. In Village C, there are a total of 25 houses suitable for sewer connection. As at December 2016, 17 of them have completed sewer connection and the connection rate has increased from 28% in June 2016 to 68% at present. For the remaining 8 village houses, connection works have not been carried out because the owners were either planning to rebuild their houses shortly or they reside overseas most of the time. As for Villages D and E, all the 24 premises which are suitable for connection to public sewers are squatter huts. The remaining 8 squatter huts have not been connected mainly because their owners are of old age or have financial difficulties. EPD will continue to follow up the situation.

- (b) Can EPD advise on the reasons for the village representatives of 49 village houses in Case 1 in paragraph 4.11 raising objections to the public sewerage works? As public sewers had been provided for seven village houses, what were the reasons for the owners of these village houses not completing the sewer connection works in the end? Is it EPD's usual practice to abandon the plan to provide public sewers for village houses whenever it faces opposition from house owners concerned? Do the "Enforcement Guidelines on Sewer Connection" have any legal effect? If they do, what are the relevant details? If not, is it the non-legally binding nature of the guidelines that has rendered EPD's enforcement actions unsatisfactory, or are there other reasons for that?

Will EPD consider the handling of and follow-up actions taken for Case 1 in paragraph 4.11 unsatisfactory? If so, will EPD take follow-up actions again in respect of Village A in Case 1 in paragraph 4.11 by rearranging connection works or offering help to improve the situation? If it will, what are the estimated works costs for that?

- (c) According to EPD's response in respect of Case 1 in paragraph 4.11, it was because no discharge of waste water from the seven village houses and no pollution to the environment had been observed that EPD had not taken further follow-up and enforcement actions in respect of their connection to public sewers. However, as it had been more than 10 years since detailed study, review, audit, etc., were conducted for the works project and funding was then approved, will EPD conduct a review in this respect and make improvements, so as to avoid the recurrence of such a waste of public money and manpower resources? Had any administrative loopholes on the part of EPD been involved in the failure of the sewer connection in Village A to achieve the intended results? If so, when will EPD conduct a review and how will it make improvements in this respect?

Response: (for b & c)

After amendment to the project scope of Case 1, the two elderly homes were connected to the sewers. From the pollution control point of view, 90% of sewage in the village has been properly connected to public sewers. For the remaining 7 village houses, the village representatives and the house owners had been objecting strongly to the connection works. EPD and the relevant departments met the village representatives and the owners of the village houses and conducted site visits in October and November 2016 respectively. In view of the environmental improvement brought by the sewer connection works of other villages, the village representatives and the villagers concerned now changed their mind and indicated willingness to carry out the connection works. DSD and EPD have discussed the works details with the villagers concerned and would strive to commence the works in early 2017. EPD will closely follow up the progress.

EPD's experience in implementing public sewerage connection works in New Territories since the 1990's showed that proactive liaison and dialogue with house owners / residents, village representatives and related stakeholders are important to resolve practical difficulties on sewer connection works, as well as to secure their commitment and cooperation. The effectiveness of the work is also reflected in the high overall connection rate and the continuous improvement of river water quality. The Enforcement Guidelines on Sewer Connection is our internal operational guideline which is designed to facilitate the progress of the overall sewer connection works along the department's mission. We have initiated appropriate enforcement actions targeting at those villages with low connection rates or lacking progress even after long duration of communication. We will update the Enforcement Guidelines on Sewer Connection to strengthen the enforcement.

- (d) Can EPD advise on the total number of village houses in Village B in Case 2 in paragraph 4.11, and among them, the number of village houses which had decided not to carry out sewer-connection works and the reasons for that? What were EPD's follow-up actions in the light of this situation? Are there any village houses in Village B for which the relevant works are still underway? If there are, how many? Will EPD

consider the handling of and follow-up actions taken for Case 2 unsatisfactory? If so, how will EPD follow up and improve the situation specifically?

Response:

In Village B, there are a total of 62 houses suitable for sewer connection. As at December 2016, 29 houses have been connected to sewers, representing a connection rate of 47%. To expedite the sewer-connection works of the remaining houses, EPD met with the village representatives again in September and November 2016 to understand their concerns and provide technical solutions. EPD is actively verifying the views of the house owners, and has made clear that it will require the owners to complete the connection works as soon as practicable through issuance of statutory notices under the WPCO. The EPD will consider prosecution if the house owner has not commenced the sewer connection works after the statutory notice expires.

- (e) For Village B in Case 2 in paragraph 4.11, can EPD advise on the total number of house owners who were usually residing overseas? Was the incompleteness of such information attributable to staff establishment problem? If so, what were the details? If not, why had EPD not provided the Audit with all the information about the relevant village houses?

Response:

EPD has been liaising with the village representatives of Village B. In the two meetings with EPD in September and November 2016, the village representatives still failed to provide more addresses of the houses with owners living overseas, and claimed that there were other reasons for not carrying out the sewer-connection works, including concerns about their affordability of the connection costs, plan to rebuild their houses in the near future, or limited knowledge about the rural sewerage scheme, such as the details and cost of the sewer connection works, information on eligible contractors, improvement to the environment and local hygiene and the legal responsibility of the household owner or tenant. EPD is taking active steps to confirm the specific situation of the remaining house owners so as to take forward the sewer connection works. EPD will issue statutory notices to mandate the owners to carry out the works when necessary.

9. Incomplete database on sewer-connection information

- (a) Does EPD agree with the Audit's recommendation in paragraph 4.15? If it does, what measures will it take to follow up on Audit's recommendation?

Response:

EPD agrees with the Audit's recommendations on the need for accurate and timely entry of information into the database. EPD will review and refine the existing database, and will issue reports periodically on the progress of sewer connection works so that its staff can take follow-up actions and input the relevant information into the computerized database in a timely manner.

– End –

Table 1

	PWP Item No./Description	Scope of Works	Approved Project Estimate (\$M)
1	4396DS Sewerage in Nam Wa Po and Wai Tau Tsuen	(a) about 7.3 kilometres (km) of sewers ranging from 150 millimetres (mm) to 300 mm in diameter for two unsewered areas in Tai Po, namely Nam Wa Po and Wai Tau Tsuen; (b) two sewage pumping stations (SPSs) at Nam Wa Po and Wai Tau Tsuen in Tai Po; (c) about 170 metres (m) of twin rising mains of 150 mm in diameter in association with construction of the SPS at Nam Wa Po; and (d) ancillary works.	319.1
2	4386DS Village sewerage in Kau Lung Hang San Wai, Kau Lung Hang Lo Wai and Tai Hang, and southern trunk sewer between Wai Tau Tsuen and Nam Wa Po	(a) about 11 kilometres (km) of sewers ranging from 150 millimetres (mm) to 350 mm in diameter for three unsewered areas in Tai Po, namely Kau Lung Hang San Wai, Kau Lung Hang Lo Wai and Tai Hang; (b) about 1.5 km of gravity trunk sewers ranging from 250 mm to 450 mm in diameter along Tai Wo Services Road West between Wai Tau Tsuen and Nam Wa Po; (c) one sewage pumping station (SPS) at Tai Hang in Tai Po; (d) about 125 metres (m) of twin rising mains of 200 mm in diameter in association with construction of the SPS in (c) above; and (e) ancillary works.	316.8
3	4375DS Sewerage in Ping Kong, Fu Tei Pai and Tai Wo	(a) about 8.3 kilometres (km) of sewers for the three unsewered areas, namely Ping Kong, Fu Tei Pai and Tai Wo; (b) about 500 metres (m) of gravity trunk sewers along Tai Wo Service Road East; (c) two sewage pumping stations (SPSs), one at Ping Kong and the other at Tai Wo; (d) about 250 m of twin rising mains in association with construction of the two SPSs in (c) above; and (e) ancillary works.	226.8
4	4359DS North District Sewerage Stage 1 Phase 2B	(a) about 11 kilometres (km) of sewers, ranging from 150 millimetres (mm) to 400 mm in diameter for 12 unsewered areas ¹ in North District; (b) three sewage pumping stations, respectively in San Wai, Tung Kok Wai and Wing Ning Tsuen; and (c) about 1.4 km of rising mains, ranging from 100 mm to 250 mm in diameter, in association with the construction of the three sewage pumping stations in (b) above.	185.0
5	4378DS North District sewerage stage 2 part 2A — Pak Hok Lam trunk sewer and Sha Tau Kok village sewerage	(a) about 2 kilometres (km) of gravity trunk sewers along Sha Tau Kok Road (Shek Chung Au Section); (b) about 10 km of sewers for the nine unsewered areas, namely Muk Min Tau, Nga Yiu Tau, San Tsuen, Shan Tsui, Sheung Tam Shui Hang, Ha Tam Shui Hang, Tsiu Hang, Wu Shek Kok and Yim Tso Ha; (c) one sewage pumping station (SPS) at Wu Shek Kok; (d) about 300 metres (m) of twin rising mains in association with construction of the SPS in (c) above; and (e) ancillary works.	272.1

Table 1

	PWP Item No./Description	Scope of Works	Approved Project Estimate (\$M)
6	4365DS Tolo Harbour Sewerage of Unsewered Areas, Stage 1, Phase 2C	(a) about 31.2 kilometres (km) of branch sewers for collecting sewage from 16 unsewered areas in Sha Tin and Tai Po, namely Tung Lo Wan, Pai Tau, Sheung Wo Che (including Ha Wo Che), Lok Lo Ha, Tai Lam Liu, Wu Kai Sha, Tai Mei Tuk, Wong Chuk Tsuen, Lung Mei, Ting Kok, Lo Tsz Tin, Wai Ha, Po Sam Pai, San Tau Kok, Lai Pek Shan San Tsuen and Shuen Wan Lei Uk; and (b) about 1.2 km of trunk sewers largely along Tai Po Road – Tai Wo to collect sewage from the Hong Lok Yuen area which is currently not served by public sewers.	381.4
7	4395DS Tolo Harbour Sewerage of Unsewered Areas, Stage 2, Phase 1	(a) about 11.7 kilometres (km) of sewers ranging from 150 millimetres (mm) to 300 mm for nine unsewered areas in Sha Tin, namely Siu Lek Yuen, Ngau Pei Sha, Tsok Pok Hang, Sha Tin Heights, Fui Yiu Ha, Kwai Tei New Village, Sha Tin Fishermen's New Village (also known as Ah Kung Kok Fishermen Village), Kau To and Tin Liu, as well as two unsewered areas in Tai Po, namely, Ha Wun Yiu and Shan Tong; (b) one sewage pumping station (SPS) at Kau To in Sha Tin; (c) about 130 metres (m) of twin rising mains of 100 mm in association with construction of the SPS in (b) above; and (d) ancillary works.	364.7
8	4382DS Sewerage at Clear Water Bay Road, Pik Shui Sun Tsuen and West of Sai Kung Town	(a) about 12.8 kilometres (km) of sewers ranging from 150 millimetres (mm) to 300 mm in diameter for 11 unsewered areas, namely Kap Pin Long, Nam Shan, Pak Kong, San Uk, Sha Kok Mei, Tai Ping Village, Tai Shui Tseng, Wo Tong Kong, Lung Wo Tsuen, Pik Shui Sun Tsuen and in the vicinity of Fei Ngo Shan Road; (b) about 3.6 km of gravity trunk sewers ranging from 225 mm to 450 mm in diameter along Clear Water Bay Road from Shun Chi Street to Razor Hill Road and around Pik Shui Sun Tsuen; (c) one sewage pumping station (SPS) at Pik Shui Sun Tsuen; (d) about 900 metres (m) of twin rising mains ranging from 150 mm to 350 mm in diameter – (i) at Pik Shui Sun Tsuen in association with construction of the SPS in (c) above; (ii) along sections of Clear Water Bay Road near Tseng Lan Shue and Pak Shek Wo; and (e) ancillary works.	359.0
9	4397DS Outlying Islands Sewerage, Stage 2 - Lamma Village Sewerage Phase 2, Package 1	(a) about 9.1 kilometres (km) of sewers ranging from 150 millimetres (mm) to 250 mm in diameter for 13 unsewered areas in Yung Shue Wan of Lamma Island, namely Sha Po New Village, Sha Po Old Village, Yung Shue Wan Back Street, Tai Shan West, Tai Shan East, Tai Shan Central, Ko Long, Tai Yuen Village, O Tsai, Po Wah Yuen, Yung Shue Long New Village, Yung Shue Long Old Village and Tai Peng; (b) one sewage pumping station (SPS) at O Tsai; (c) about 50 metres (m) of twin rising mains of 100 mm in diameter in association with construction of the SPS in (b) above; and (d) ancillary works.	340.2

Table 1

	PWP Item No./Description	Scope of Works	Approved Project Estimate (\$M)
10	4387DS Upgrading of Mui Wo sewage treatment works and sewerage at Mui Wo town centre and Wang Tong	(a) upgrading of the existing Mui Wo STW to a capacity of 3700 cubic metres (m ³) per day; (b) upgrading of about 2.0 kilometres (km) of existing gravity trunk sewers with larger pipes ranging from 300 millimetres (mm) to 750 mm in diameter in Mui Wo town centre; (c) construction of about 2.9 km of sewers ranging from 150 mm to 250 mm in diameter for two unsewered areas in Mui Wo, namely Wang Tong and Yue Kwong Chuen; and (d) ancillary works.	967.2
11	4208DS Outlying Islands sewerage stage 1 phase 1 part 1 - Ngong Ping village sewerage works	(a) about 2.6 kilometres of gravity sewers; (b) about 170 metres of twin rising mains and two small underground sewage pumping chambers; and (c) ancillary works including landscape works.	25.8
12	4126DS Sham Tseng sewerage, stage 3	(a) construction of one sewage pumping station in Tsing Lung Tau; and (b) construction of about 5.5 kilometers (km) of sewers in nine villages, namely Sham Tseng East Village, Sham Tseng Commercial New Village, Sham Tseng Kau Tsuen, Sham Tseng San Tsuen, Shu On Terrace, Tsing Fai Tong New Village, Pai Min Kok Village, Yuen Tun Village and Tsing Lung Tau Tsuen.	45.0
13	4370DS Village sewerage at Wang Chau of Yuen Long	(a) about 9 kilometres (km) of sewers for collecting sewage from nine unsewered areas in Wang Chau of Yuen Long, namely Lam Uk Tsuen, Yuk Yat Garden, Yeung Uk Tsuen, Tung Tau Wai, Tung Tau Wai San Tsuen, Chung Sam Wai, Fuk Hing Tsuen, Sai Tau Wai and Ting Fook Villas; (b) a sewage pumping station near Tung Tau Industrial Area; and (c) ancillary works.	219.2
14	4384DS Yuen Long and Kam Tin sewerage, stage 3 package 2	(a) about 6.5 kilometres (km) of sewers ranging from 300 millimetres (mm) to 450 mm in diameter for six unsewered areas, namely Nam Pin Wai, Sai Pin Wai, Tai Tong Tsuen, Tsoi Uk Tsuen, Wong Uk Tsuen and Ying Lung Wai; (b) about 3.6 km of gravity trunk sewers ranging from 300 mm to 450 mm in diameter in the vicinity of the areas mentioned in (a) above; and (c) ancillary works.	213.4
15	4230DS Outlying Islands sewerage stage 1 phase 1 part 2 - Yung Shue Wan sewerage, sewage treatment works and outfall	(a) provision of about 3.3 kilometres (km) of sewers in six villages of YSW, namely Po Wah Yuen, Sha Po New Village, Tai Yuen New Village, Kam Shan Terrace, Sha Po Old Village and Ko Long, together with the associated geotechnical works along the proposed sewer alignments; (b) provision of a secondary sewage treatment work (STW) with treatment capacities of 2850 cubic metres per day at YSW, together with the associated sludge treatment and odour control facilities as well as the slope stabilisation works for the STW site; (c) provision of a submarine outfall of length 500 metres (m) at YSW; and	347.5

Table 1

	PWP Item No./Description	Scope of Works	Approved Project Estimate (\$M)
16	4234DS Outlying Islands sewerage, stage 1 phase 2 — Sok Kwu Wan sewage collection, treatment and disposal facilities	(a) provision of about 1.8 km of sewers in two villages of SKW, namely Chung Mei and Sok Kwu Wan, together with the associated geotechnical works along the proposed sewer alignments; (b) provision of a secondary sewage treatment work (STW) with treatment capacities of 1430 cubic metres per day at SKW, together with the associated sludge treatment and odour control facilities as well as the slope stabilisation works for the STW site; (c) provision of a submarine outfall of length 750 metres (m) at SKW; and (d) provision of two pumping stations and two twin rising mains with a total length of about 1 km at SKW.	353.7
17	4371DS Sewerage in Western Tuen Mun	(a) about 7.0 kilometres (km) of trunk sewers along Ming Kum Road, Tsing Wun Road, Lung Mun Road and Tsing Lun Road; (b) a new sewage pumping station at the junction of WongChu Road and Tsing Wun Road; (c) about 7.0 km of village sewers at Tseng Tau Sheung Tsuen and a part of Tsing Shan Tsuen; and (d) ancillary works.	1340.0
18	4374DS Tuen Mun sewerage, stage 1 - village sewerage in Tsing Chuen Wai and Tuen Tsz Wai	(a) about 1.5 kilometres of sewers with diameters from 150 millimetres (mm) to 225mm to serve part of the areas of Tsing Chuen Wai and Tuen Tsz Wai in Tuen Mun; and (b) ancillary works.	21.7
19	4404DS Tuen Mun Sewerage - Castle Peak Road Trunk Sewer and Tuen Mun Village Sewerage	(a) about 3.7 kilometres (km) of sewers with diameters ranging from 200 millimetres (mm) to 600 mm for three unsewered areas, namely Kei Lun Wai, Yeung Siu Hang and Lam Tei; (b) one sewage pumping station (SPS) at Lok Chui Street; (c) about 720 metres (m) of twin rising mains with diameter of 350 mm along Castle Peak Road – Tai Lam and in association with construction of the SPS in (b) above; (d) about 200 m of branch sewers with diameter of 225 mm along Lok Yi Street and Lok Chui Street; and (e) ancillary works.	722.5
20	4373DS Lam Tsuen Valley sewerage—stage 1	(a) about 16 kilometres (km) of sewers for the 14 unsewered areas, namely Chuen Shui Tseng, Chung Uk Tsuen, Fong Ma Po, Hang Ha Po, Kau Liu Ha, Ko Tin Hom, Lam Tsuen San Tsuen, Lung A Pai, Pak Tin Kong, San Uk Pai, San Uk Tsai, Tin Liu Ha, Tong Min Tsuen and Wo Tong Pui; (b) two sewage pumping stations (SPSs), one at Tin Liu Ha and the other at Tong Min Tsuen; (c) about 550 metres (m) of twin rising mains in association with construction of the two SPSs in (b) above; and (d) ancillary works.	274.4

Table 1

	PWP Item No./Description	Scope of Works	Approved Project Estimate (\$M)
21	4332DS Lam Tsuen Valley sewerage, stage 2	(a) about 17.2 kilometres (km) of sewers ranging from 150 millimetres (mm) to 225 mm in diameter for 13 unsewered areas, namely Chai Kek, Ma Po Mei, Ng Tung Chai, Pak Ngau Shek Sheung Tsuen, Pak Ngau Shek Ha Tsuen, Ping Long, San Tong, Sha Pa, She Shan Tsuen, Shui Wo, Tai Mong Che, Tai Om and Wo Liu; (b) four sewage pumping stations (SPSs) at Ma Po Mei, Pak Ngau Shek, Sha Pa and She Shan Tsuen respectively; (c) about 1.0 km of twin rising mains of 150 mm in diameter in association with the construction of the SPSs in (b) above; and (d) ancillary works.	588.3
22	4360DS Sewerage at Tseng Tau Chung Tsuen, Tuen Mun	(a) construction of about 6.8 km of trunk sewer (“the Western Interceptor Sewer”, (WIS)) and the associated Tuen Mun North sewage pumping station and WIS sewage pumping station in Tuen Mun; and (b) provision of pumping stations and village sewerage to collect and convey sewage from 27 unsewered villages/areas in Tuen Mun to the main sewer system.	33.0
23	4052DS Ting Kau sewerage, stage 2	(a) construction of three sewage pumping stations and laying of a total of about 200 metres of twin rising mains at Approach Beach, Lido Beach and Ting Kau; and (b) construction of 1.6 kilometers (km) of sewers in Ting Kau Village.	64.9
24	4340DS Port Shelter sewerage stage 3 — Mang Kung Uk sewerage	(a) extension of the public sewer system to the Mang Kung Uk area, which involves the construction of about 4.2 kilometres (km) of trunk sewers and branch sewers, ranging from 225 millimetres (mm) to 300mm in diameter.	30.4
Total (\$M)			8012.1



香港特別行政區政府 The Government of the Hong Kong Special Administrative Region
渠務署 Drainage Services Department

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來函檔號 Your Ref : CB4/PAC/R67
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3 January 2017

(Urgent by fax: 2543 9197)

Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

(Attn : Mr Anthony CHU)

Dear Mr CHU,

Public Accounts Committee

Consideration of Chapter 8 of the Director of Audit's Report No. 67

Sewerage systems in rural areas

I refer to your above referenced letter dated 20 December 2016.

Please find attached our responses (both Chinese & English versions) to the issues mentioned in your letter.

Yours faithfully,

(Michael FONG)
for Director of Drainage Services

c.c. Secretary for the Environment	(fax no. 2537 7278)
Director of Environmental Protection	(fax no. 2891 2512)
Director of Food and Environmental Hygiene	(fax no. 2524 1977)
Director of Lands	(fax no. 2525 4960)
Secretary for Financial Services and the Treasury	(fax no. 2147 5239)
Director of Audit	(fax no. 2583 9063)

**Questions and Request for Information in respect of
Chapter 8 of the Director of Audit's Report No. 67 Sewerage systems in rural areas**

Questions to be responded by Drainage Services Department

Part 2: Pollution control in unsewered areas

1. Problems of septic-tank-and-soakaway (“STS”) systems

- (a) Please explain the situation mentioned in Note 12 to paragraph 2.19. What were the details of the 24 projects mentioned in paragraph 2.19(c) and their respective project estimates? Can the Administration provide the project estimates of similar works for reference and comparison?

Reply:

The total Approved Project Estimates (APEs) for the 24 projects under the Village Sewerage (VS) Programme is about \$8 billion (in money-of-the-day prices). Apart from the works inside the individual villages, the APEs also included costs for constructing trunk sewers, sewage pumping stations and sewage treatment works outside the villages, as well as other general expenditures such as site staff salary and consultancy fees etc. As these projects involved about 40 work contracts, it would require substantial amount of resources and time to separate the costs solely related to the VS works from the APEs. Hence, having discussed with the Audit Commission (AC), DSD did not provide the APEs solely related to VS works as per AC’s request. Please refer to **Table 1** for details of the 24 projects and the related APEs. Besides, since the scope, nature, works areas, construction time and requirements for each individual project are different, it is impracticable to provide the project estimates of similar works for reference and comparison.

2. Requirements for some STS systems not on par with the Environmental Department (“EPD”) practice note

- (a) In connection with paragraph 2.38(i), can the Administration advise on the time required for completing the whole application process under normal circumstances? What were the respective numbers of successful and unsuccessful applications in the past? Had the Administration reviewed the administrative work involved in the whole application process to see if any parts of the process could be dispensed with so that the applications could be handled more promptly and efficiently?

***Note by Clerk, PAC: Please see Appendix 36 of this Report for Table 1.**

Reply:

EPD is responsible for vetting those applications of development / redevelopment of village houses involving submission of percolation test results certified by building professionals.

Lands Department will refer the application for development / redevelopment of village houses to DSD to provide comments from drainage point of view. In general, DSD would reply to Lands Department in about 2 to 4 weeks' time upon receiving the concerned referral.

Part 3: Planning and implementation of village sewerage programmes

3. Slippages in implementing village sewerage projects

- (a) Regarding the situation mentioned in Table 2 in paragraph 3.15 and paragraph 3.16, do EPD and Drainage Services Department ("DSD") agree that the long delays in completing the village sewerage programmes did not only delay improvements to be made to village sewerage in rural areas, and the hygiene and environment problems caused by the less-than-satisfactory sewerage systems in these areas would persist? If so, how will the departments improve the situations?

Reply:

DSD will work in collaboration with EPD proactively for implementing the VS programmes. We will liaise with various stakeholders including the locals and the affected villagers regarding the technical design issues in a timely manner and to solicit their support. Upon funding being approved for the concerned works, we will commence the works as soon as possible and complete the works as scheduled.

- (b) Can DSD advise on the time spent on dealing with the land resumption problems in respect of Project A in paragraphs 3.23 to 3.25? Was re-tendering required for the relevant sewerage works because the works were completed later than the scheduled completion dates? If so, what were the details?

Reply:

In July 2008, DSD received objections relating to the resumption of 17 private land lots. After rounds of liaison and consultation, DSD reached consensus with the concerned

stakeholders on the alternative sewer alignments and related land resumption areas in July 2012, and the works under Project A immediately commenced thereafter. Re-tendering for the concerned works was not needed.

- (c) Can the Administration advise which department was responsible for managing the underground utilities under Project B as mentioned in paragraphs 3.28 and 3.29, why such utilities were unrecorded, and whether any administrative loopholes had been involved? If so, how will the Administration solve the problem concerned? As DSD indicated that it was not uncommon for village sewerage works to encounter unrecorded underground utilities during works excavation, will DSD assess the risks of significant delays or cost overruns in future works arising from unrecorded underground utilities?

Reply:

During the planning and design stages, DSD would obtain the latest underground public utilities records / drawings from relevant utility undertakers, as well as carrying out site investigations so as to identify existing underground public utilities within the works areas. However, it is still possible to find out during the construction stage that the locations of individual underground public utilities within the works areas are different from those shown on the record plans. Notwithstanding this, DSD will strive to take all necessary and practicable measures to identify the affected existing underground utilities as far as possible during the design stage, in order to reduce the risk of delay or over-budget in future construction works arising from obstruction of unrecorded underground public utilities.

- End -

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(Urgent by Fax 2856 9902)

Your Ref.: CB4/PAC/R67

Our Ref.: (11) in L/M in FEHD C1&PC/32-60/10/8C

Mr Anthony CHU
Clerk to Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road, Central
Hong Kong

9 January 2017

Dear Mr Chu

Public Accounts Committee
Consideration of Chapter 8 of the Director of Audit's Report No. 67
Sewerage systems in rural areas

Thank you for your letter dated 20 December 2016. I am authorised to provide a consolidated bilingual response from Food and Health Bureau and Food and Environmental Hygiene Department in respect of the matters related to the captioned Report as per attached at

_____ **Annex.**

Yours sincerely



(CHAN Chung-chi)

For Director of Food and Environmental Hygiene

- c.c. Secretary for the Environment (fax no. 2537 7278)
Director of Environmental Protection (fax no. 2891 2512)
Director of Drainage Services (fax no. 2827 0287)
Director of Lands (fax no. 2525 4960)
Secretary for Financial Services & the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

Consolidated Response from Food and Health Bureau and
Food and Environmental Hygiene Department to Questions Raised by
The Public Accounts Committee of the Legislative Council in relation to
Chapter 8 of the Director of Audit's Report No. 67 on
Sewerage Systems in Rural Areas

1. No licences issued for desludging of septic tanks and disposal of excretal matter
 - (a) Please provide the reasons why the 78 private operators mentioned in paragraph 2.47 had not been issued with licences, and advise on whether they might operate the business only if they had been issued with licences. What was the total number of licence applications made to the Department for provision of septic tanks desludging and excretal-matter disposal services? What is the current number of licensed private operators? If an operator operates the aforesaid business without a licence, what actions and measures will the Administration take to combat and improve the situation?
 - (b) Regarding the situation in paragraph 2.46, what were the reasons for the Food and Environmental Hygiene Department ("FEHD") not having conducting a review on the absence of requests for septic tanks desludging services from the public over the past 13 years? Can it advise whether the substantial decline in the number of requests for the aforesaid services from the public between 2000 and 2016 could be attributed to insufficient publicity or changes in market demand? If so, will FEHD conduct a review expeditiously? If not, what are the reasons? In the long run, will FEHD realign the contents of relevant services and the number of staff in accordance with the current public demand so as to achieve optimal allocation of resources? If it will, what are the details? If not, what are the reasons for that?

Reply:

Under section 9 of the Waste Disposal Ordinance (WDO, Cap.354), the "collection authority" is authorised to provide, among others, the desludging services of septic tanks. Under section 10 of the Ordinance, the "collection authority" may, by licence, permit any person to provide, among others, the desludging services of septic tanks as referred to in section 9. The "collection authority" includes the Food and Environmental Hygiene Department (FEHD) and the Environmental Protection Department (EPD).

In the past when there was only limited supply of mechanical desludging services in the private market, FEHD, apart from the provision of desludging services for septic tanks at government venues, entertained requests from members of the public and provided the services to a few private venues upon payment of the service cost subject to the team's capacity. With an increasing supply of such services in the private market, the demand for FEHD's desludging services has been on the decline. On the other hand, upon gradual conversion of over 600 aqua privies in rural area into flushing toilets for public use in the past two decades, the demand for desludging service has diminished significantly and the FEHD's desludging fleet was downsized. The fleet remaining is now fully engaged in providing service primarily to government venues, including the remaining 50 aqua privies and some public toilets without sewage treatment facilities. The service demand from private venues is mainly met by the private sector.

EPD has introduced licensing regimes for the collection of chemical wastes and clinical wastes, with due regard for the special nature of such services. The desludging services for septic tanks, however, do not require any licence for operation in view of its simple operation. There are so far few reports of malpractices of desludging service providers. Currently, private desludging service providers are not required to obtain such licenses but they have to ensure proper management of the sludge in septic tanks, and illegal dumping is liable to prosecution under section 16 of the WDO.

2. Ineffective action taken to prevent illegal dumping of excretal matter
 - (a) What is the Environmental Department ("EPD")'s view on the effectiveness of installing surveillance cameras as mentioned in paragraph 2.53? For cases of unsuccessful prosecution, was it due to a lack of resources to procure sufficient cameras, or were there other reasons? If EPD and FEHD continue to adopt this approach of installing surveillance camera systems at more blackspots of illegal dumping of waste, including excretal matter, what are the estimated costs?

Reply:

In order to formulate an implementation plan, EPD is now conducting a comprehensive review on the information and experience obtained from the Pilot Scheme, exploring the enhancement of the technical specifications of the surveillance cameras, and making reference to the investigation and enforcement methods of other government departments. Upon release of EPD's review report, FEHD will draw reference from the experience of EPD to explore ways to improve the present enforcement measures to tackle the problem of illegal dumping of waste in public place.

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地政總署
 LANDS DEPARTMENT

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覆函請註明本署檔號

Please quote our reference in response to this letter.

3 January 2017

By Fax and By Despatch
(Fax: 2543 9197)

Public Accounts Committee
 Legislative Council
 Legislative Council Complex
 1 Legislative Council Road
 Central
 Hong Kong
 (Attn: Mr. Anthony CHU)

Dear Mr. CHU,

Public Accounts Committee
Consideration of Chapter 8 of the Director of Audit's Report No. 67
Sewerage systems in rural areas

I refer to your letter dated 20 December 2016.

Please find attached our responses (both Chinese & English versions) to the issues mentioned in your letter.

Yours sincerely,

(Ms. Doris CHOW)
 for Director of Lands

Encl.

c.c.

Director of Environmental Protection
 (Attn: Dr. CHUI Ho-kwong, Samuel)

Secretary of Development
(Attn: Mr. MAK Shing-cheung, Vincent)
(Attn: Ms. CHONG Yau-ling, Christina)

**Questions and Request for Information in respect of
Chapter 8 of the Director of Audit's Report No. 67
Sewerage systems in rural areas**

For the Lands Department

Part 2: Pollution control in unsewered areas

1. Problems of septic-tank-and-soakaway ("STS") systems

- (a) Would the Environmental Protection Department ("EPD") and the Lands Department ("LandsD") explain whether manpower shortage was the cause for the failure to complete the work mentioned in paragraph 2.21(b)? If so, whether the problem could be ameliorated by providing additional manpower? If it could not, what were the reasons for not establishing a database or a register and not preparing a map of villages?

Reply:

According to paragraph 2.21 of the Audit Report, Environmental Protection Department (EPD) published a Report on "Study on the Environmental Impact of Discharges from Septic Tanks" in October 2001. As a matter of fact, LandsD has neither been provided with a copy of the Study Report nor approached by EPD for assistance relating to the Study Report. If EPD considers necessary, LandsD would render assistance in providing available information to EPD for it to implement the recommendation of the Study Report.

2. Requirements for some STS systems not on par with EPD practice note

- (a) According to paragraph 2.36 and Table 1 in paragraph 2.37, the village-house sewerage requirements stipulated under a certificate of exemption ("CoE") issued by LandsD for pertinent drainage works in the New Territories were more lax than those stipulated under the "Drainage Plans subject to comment by EPD" issued by EPD in 1993 ("the 1993 Practice Note"), would the Administration explain the reasons for that? In connection with the above, does the

Administration agree that the CoE conditions stipulated by LandsD were less effective than those stipulated under the 1993 Practice Note in preventing STS systems from polluting the environment? Please advise why the two departments did not standardize the aforesaid guidelines at the outset. Is there or will there be room for standardizing these guidelines? If so, please advise on the relevant details and timetable. If not, what are the reasons?

Reply:

With reference to paragraphs 2.36 and 2.37 of the Audit Report, according to EPD, its 1993 Practice Note was promulgated to help Authorized Persons (APs) in the design and preparation of drainage plans for the submission of the same to the Building Authority under the Buildings Ordinance (Cap. 123). As New Territories Exempted Houses (NTEHs) are exempted from the Buildings Ordinance (Cap. 123), LandsD has set out separate technical requirements applicable for NTEHs when exercising its authority over these NTEHs under the Buildings Ordinance (Application to the New Territories) Ordinance (Cap. 121).

In late 2000, arising from complaints that LandsD's requirement for Septic Tank and Soakaway (STS) in respect of a NTEH to be located only beyond (but not within) 30 metres from streams, springs, wells or beaches appeared to be more stringent than the requirements set out in EPD's 1993 Practice Note, LandsD and EPD agreed that in the case of NTEHs, an STS system located between 15 metres and 30 metres from stream courses or wells not for drinking or domestic purposes should also be allowed, provided that the requirements under EPD's 1993 Practice Note would be adopted for processing applications for development/redevelopment of NTEH involving STS system and that the AP/Registered Structural Engineer (RSE)/Registered Professional Engineer (RPE) appointed by the applicant is required to certify that the STS system upon completion is constructed in accordance with the technical requirements contained in EPD's 1993 Practice Note. In other words, the focus then was to tackle a valid complaint by aligning the practices in respect of whether and how a STS system should or should not be permitted within 30 metres from stream courses or wells not for drinking or domestic purposes. The objective then was not about the need or otherwise for extending the scope of EPD's 1993 Practice Note to cover generally all NTEHs which are not supposed to be the subject matter for that Practice Note focusing on drainage works in respect of buildings subject to the Buildings Ordinance (Cap. 123).

In an attempt to ensure better control over the provision of sewerage disposal systems in development/redevelopment of NTEH, LandsD and EPD agreed in late 2014 that, starting from December 2014, the design and construction of STS system for development/redevelopment of NTEH within the country park enclaves in Hoi Ha, Pak Lap and So Lo Pun should be in line with EPD's 1993 Practice Note irrespective of its distance from streams/wells (i.e. even if such system is beyond 30 metres from streams, springs, wells or beaches), and the applicants should submit percolation test results certified by AP/RSE/RPE to the relevant District Lands Offices (DLOs) for scrutiny at the application stage, and the relevant DLOs will circulate the applications to EPD (with the percolation test results), AFCD, DSD and PlanD for comments. LandsD and EPD have also agreed that the requirements in EPD's 1993 Practice Note should, starting from December 2014, be applied to cases where the application sites are outside existing "V" zones which require planning approvals or where the applications sites are in new/newly enlarged "V" zone areas.

A working group has been set up jointly by EPD and LandsD in December 2016 in order to align the conditions of Certificate of Exemption in respect of Drainage Works with the EPD's 1993 Practice Note as far as practicable.

- (b) In connection with paragraph 2.38(i), can the Administration advise on the time required for completing the whole application process under normal circumstances? What were the respective numbers of successful and unsuccessful applications in the past? Had the Administration reviewed the administrative work involved in the whole application process to see if any parts of the process could be dispensed with so that the applications could be handled more promptly and efficiently?

Reply:

With reference to paragraph 2.38 of the Audit Report, as at the end of December 2016, among the 3 country park enclaves which required the submission of percolation test reports for scrutiny at the application stage, only 23 small house/NTEH rebuilding applications were received within the country park enclave in Hoi Ha. Among these applications, 6 applicants were requested to submit percolation test reports, of which 5 were accepted and 1 is still being considered

by EPD. According to the information from the DLO concerned, upon request, the applicants took an average of 3 months to prepare and submit the percolation test reports to DLO for onward transmission to EPD for consideration. The remaining 17 applicants will be requested to do the same at a later stage. In addition, the small house/NTEH rebuilding applications within the country park enclaves would separately be circulated to AFCD, DSD and PlanD for comments.

As the said procedures were formulated by EPD, LandsD will assist EPD in reviewing such procedures to enhance the effectiveness of the workflow, if required.

- End -

Your Ref. : CB4/PAC/R67
Our Ref. : FEHD Hy/34-105/5/4 C

9 January 2017

Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road,
Central, Hong Kong
(Attn.: Mr Anthony CHU)

By Post & Email

Email to:
ahychu@legco.gov.hk
kmho@legco.gov.hk
pkwlai@legco.gov.hk

Dear Mr CHU,

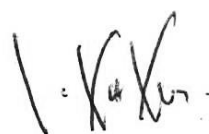
Public Accounts Committee

Consideration of Chapter 9 of the Director of Audit's Report No. 67

Joint-office operation on water seepage in buildings

Thank you for your letter of 19 December 2016. We are pleased to provide our response / information to the questions as per copy in the Appendix.

Yours sincerely,



LI Ka-kei
Assistant Director (Operations)1
for Director of Food and Environmental Hygiene

encl.

c.c. Director of Buildings	(fax no. 2868 3248)
Secretary for Financial Services and the Treasury	(fax no. 2147 5239)
Director of Audit	(fax no. 2583 9063)

Report No. 67 of the Director of Audit
Chapter 9 : Joint-office Operation on Water Seepage in Buildings
Questions and Requested Information

Replies by the Food and Environmental Hygiene Department (FEHD)

Part 2 : Investigation and Enforcement Actions

Referral Mechanism

- 1. It is stated in para. 2.9 of the Audit Report that one of the objectives of the joint-office operation is to improve the success rate of identifying the source of water seepage of cases reported by the public. Figure 2 shows that the success rates, however, had decreased progressively from 46% in 2007 to 36% in 2015. Does the Government agree that the decrease in the success rate of identifying the source of water seepage requires attention? What improvement measures will be taken by the Government to increase the success rate of identifying the source of water seepage?**

The Audit Report states that after the establishment of the Joint Office formed by the Food and Environmental Hygiene Department and Buildings Department (Joint Office), the success rate of identifying the source of water seepage had decreased progressively from 46% in 2007 to 36% in 2015. The Government, after review, summarised the major reasons of decrease as follows:

- (1) In recent years, the public has become more aware of the services provided by Joint Office and less tolerant of the water seepage having a lower moisture-content level. Hence, the public's demand for Joint Office's services has increased considerably. This is reflected in the significant increase in the number of cases reported by the public from 17 405 in 2007 to 29 617 in 2015; and**
- (2) The Buildings Department (BD) has been conducting periodic reviews on the success rate of the water seepage cases handled by the Joint Office. The reviews revealed that the higher the moisture content level of the seepage area, the more the number of successful cases. In addition, the BD had recently**

conducted a sample survey of some 100 screen-in cases completed from 2006 and 2016 and noted that the proportion of low moisture-content cases (between 35% and 50%) cases has increased drastically from about 1:30 in the period from 2007 to 2009 to about 1:4 after 2009, thus leading to a decrease in the success rate.

To address the challenge of dealing with water seepage cases at low moisture-content level, the BD has commissioned a consultancy study on the latest technological methods for identifying the source of water seepage in buildings in 2014. The consultant will assess and recommend the most suitable testing methods as well as help formulate technical guidelines for use by the Joint Office for handling water seepage cases. The study will be completed by 2017.

2. **According to paragraph 2.9, another objective of the joint-office operations was to shorten the time of investigations of cases reported by the public. Paragraphs 2.17 and 2.18, however, showed that of the 28 332 cases having actions completed from April 2015 to March 2016, the time taken to complete 9 710 (34%) cases had exceeded the total reference completion timeframe of 133 days. In particular, 643 (2%) cases had taken 2.2 to 7.5 years to complete. Furthermore, of the 15 564 outstanding cases with actions not having been completed as of March 2016, the time used for handling 6 368 (41%) cases had exceeded the total reference completion timeframe of 133 days, where the time having been spent on 1 046 (7%) cases ranged from 2.2 to 8.3 years. Does the Government agree that it is unsatisfactory that the joint-office operations carried out by the Food and Environmental Hygiene Department (FEHD) and the Buildings Department (BD) had taken a long time to complete which may lead to prolonged nuisances for the public in question and concerns over the Government's efficiency and effectiveness in taking enforcement actions under the Public Health and Municipal Services Ordinance (Cap. 132)? What measures will the Government take to improve the situation?**

The significant increase in the number of water seepage case reports in recent years has resulted in a surge in Joint Office's workload and a longer time in completing the cases, especially the complicated ones. In addition, before the Joint Office operation became a permanent arrangement in April 2014, the majority of BD Joint Office staff was contract staff whose turnover rate was high due to grim career prospects. As a result, work efficiency was affected and a large amount of backlog cases were created in the early stage. Besides, manpower strength and staff's experience by then were

unsatisfactory. With a more stable workforce being progressively established since April 2014, the performance of the Joint Office had improved.

The guidelines about completing the investigation of water seepage cases normally within 90 working days (i.e. about 133 calendar days) provide indicate timeframes for simple and straightforward cases where the co-operation of the concerned owners/occupiers are obtained (i.e. cases not involving any problem for investigators to gain access to the premises concerned, not involving difficulties to trace the seepage source, not involving multiple seepage sources nor multiple tests and not requiring Government Laboratory's confirmation of results of seepage-source tests). In complicated cases (e.g. those involving more than one bathroom or several seepage locations), multiple visits for investigation and tests will be required. In some special cases, additional visits to the complainant's premises may be required for confirming the test results or monitoring any changes in the seepage condition. The actual timeframe for completing a case will vary depending on the complexity of the case, the testing methods used, and the workload and manpower situation of the Joint Office. A case will require longer time to complete if it involves laboratory testing of samples, sub-divided flats or if an application for an entry warrant from the Court is needed.

The Administration also finds it less than satisfactory that Joint Office takes a long time to handle some water seepage cases, as pointed out in the Audit Report, and agrees that there is room for improvement. In recent years, the continual increase in the cases of reports on water seepage in buildings and the uncooperative attitude of individual occupiers under complaint who rejected Joint Office staff's entry for investigation and made unreasonable requests have led to an increase in the workload of the investigators and their time spent on paperwork, resulting in longer processing time. Nevertheless, as highlighted in paras. 2.15 and 2.16 of the Audit Report, Joint Office has set reference completion timeframes for simple and straightforward cases to monitor the investigation progress.

To enhance the effectiveness and efficiency of Joint Office, FEHD and BD are taking measures to optimise the Complaints Management Information System (CMIS), so as to improve the Joint Office staff's performance in monitoring investigation progress and ensuring timely actions by contractors. Moreover, in recent years, Joint Office has been proactively seeking resources to convert the current non-civil service contract (NCSC) staff positions to civil service grades, in a bid to lower the turnover rates and enhance the efficiency. Besides, Joint Office has stepped up its publicity

efforts regarding the handling of water seepage in buildings, so that the public will clearly understand that proper management and maintenance of buildings are the responsibilities of every property owner. If water seepage is found in buildings, the owners should first arrange their own investigation of the cause of seepage, and co-ordinate with the occupants and owners concerned for conducting repair works as soon as possible.

- 3. According to para 2.13, for a screen-out case, the FEHD has set a completion timeframe on sending a final reply to the informant within 18 working days from the time of receiving the related water seepage public report. However, the FEHD's CMIS did not maintain information on the time of sending final replies to informants of screen-out cases. Does the FEHD agree that the absence of related information has impeded the FEHD's monitoring and Audit's examination of the timeliness and completeness of the FEHD's actions in handling screen-out cases? How will FEHD improve the situation?**

Currently, the FEHD's CMIS does not keep record of whether final replies were sent to informants of screen-out cases within the set 18 working days (i.e. about 27 calendar days). The FEHD Administrative Circular on Handling of Complaints requires supervisors to oversee the progress of cases (including water seepage cases) undertaken by their subordinates, and conduct sample checks to ensure that complaint cases are handled appropriately, and properly and timely recorded in the CMIS. According to the above Administrative Circular, after issuing an interim reply to the complainant, the Case Officer should aim at issuing a substantive reply within 30 calendar days upon receipt of the complaint.

The Government agrees with the Audit Report which states that keeping the relevant information can effectively assist Joint Office to monitor the progress of such cases. To handle and monitor the progress of screen-out cases in a timely manner, FEHD is now reviewing the existing CMIS for water seepage cases, and will consider keeping the relevant information, so that the CMIS will be able to record the time of sending final replies to the informants of screen-out cases. The FEHD will also request Joint Office staff to upload the date of issuing final replies to informants to the CMIS for record.

- 4. It is mentioned in Paragraph 2.29 that according to the FEHD guidelines, in referring a case to another department, FEHD Joint Office staff will send a memorandum together with the relevant information to the related department, and record the referrals in a list of referral cases. However, when the list of referral**

cases for the period from January 2015 to March 2016 was examined, FEHD could only provide Audit with the list of referral cases for 11 districts only. The remaining 8 districts which did not keep the list of referral cases are:

Kowloon City, Kwai Tsing, Kwun Tong, Sai Kung, Tsuen Wan, Tuen Mun, Wanchai and Wong Tai Sin.

Has FEHD followed up on the reasons why the said districts failed to implement the guidelines? If yes, what are the reasons? Will FEHD conduct a thorough review on the monitoring mechanism and make improvement, or are there other improvement measures in place?

- 5. Further to the above question, when did the above FEHD's guidelines come into effect? Has FEHD regularly monitored the implementation of the guidelines since it came into effect? What are the last dates of records which are still kept by the above 8 districts? Why no such records are kept after those dates? Has FEHD investigated whether maladministration was involved? Has any responsible officer being punished?**

4 and 5

According to the operational guidelines issued by FEHD in 2006, Joint Office staff members, when referring a case to another department, are required to issue a memo and provide relevant information to the department concerned and keep a record on the list of referral cases. As the above operational guidelines do not set out the specified format of such list and the information required, some staff of individual DOs only put the information on cases referred to other departments in separate paper files. As a result, the 8 relevant DOs failed to promptly provide the Audit Commission with the properly organised list of referral cases. Besides, the keeping of relevant information as required by the above operational guidelines is mainly for record purpose and FEHD does not conduct random checks regularly in this respect. Regarding the FEHD/ Joint Office's inadequate system for referring cases to other departments as pointed out in the Audit Report, the Government has agreed with the amendment to the relevant guidelines by which the format of the list and the information required will be provided. Frontline staff has also been reminded to keep the list of referral cases in accordance with FEHD's guidelines. To improve work efficiency, FEHD will develop a management information system which, among other things, can maintain the information on cases referred to other departments and facilitate the keeping of records of case referral by Joint Office staff. It will also allow Joint Office to retrieve information directly from the system and

to print out the list of referral cases regularly which will be sent to relevant departments for reconciliation purposes.

- 6. Table 3 in paragraph 2.31 of the Audit Report shows the number of water seepage cases that had been referred by the Joint Office operation to BD and the Water Supplies Department (WSD) for follow-up actions. However, paragraph 2.31 shows that FEHD and BD informed Audit in July 2016 that they were unable to provide Audit with information related to the water seepage cases that had been referred to the BD Existing Buildings Divisions under the Joint Office operation. Moreover, there are substantial discrepancies between the records of Joint Office operation and those of WSD, which fails to serve the purpose of conducting reconciliation in respect of the progress of cases. Is it the reason for the unsatisfactory result of the Joint Office operation?**

During investigation, if the Joint Office has found that the seepage has given rise to building-safety issue and/ or the seepage is originated from leaking water-supply pipes, it will refer the seepage case to the responsible departments to take follow-up actions within their respective purview according to the inter-departmental arrangement. Meanwhile, the Joint Office will continue and complete the investigation under the Public Health and Municipal Services Ordinance (Cap. 132). The respective departments will start following up the cases upon receiving Joint Office's referral and will reply to the informant in writing direct with a copy to Joint Office for reference. As such, the Joint Office can check the progress of the follow-up actions from the case file.

- 7. Further to the above question, when did the FEHD's requirement of keeping the list of referral cases come into effect? Has FEHD regularly monitored the list of referral cases since the requirement came into effect? What are the last dates of records which are still kept by FEHD? Why has FEHD not kept such records after that date? Has FEHD investigated whether maladministration was involved? Has any responsible officer being punished?**

Regarding the reports of water seepage in buildings, where the water seepage poses a risk to the structural safety of the building or results in wastage of water, the Government will intervene and handle the case in accordance with the powers conferred by the Buildings Ordinance (Cap. 123) or the Waterworks Ordinance (Cap. 102) respectively.

According to the operational guidelines issued by FEHD, when it is necessary to refer a case involving leakage of water pipes to WSD, Joint Office staff under FEHD will deliver

a memorandum to WSD directly. As for a case referred to the Existing Buildings Divisions (EBD) of BD, it should be first submitted to BD Joint Office staff for their vetting. After determining that it is well-justified, BD Joint Office staff will refer the case to the EBD of BD for follow-up. The operational guidelines do not set out the specified format of the list of referral cases and the information required, and do not require staff members to submit the list of referral cases to WSD and the EBD of BD for reconciliation purposes in a timely manner. As a result, some staff members of individual DOs only put the information on cases referred to other departments in separate paper files. Besides, the keeping of relevant information as required by the above operational guidelines is mainly for record purpose and FEHD does not conduct random checks regularly in this respect.

The substantial discrepancies between the records of referral cases kept by Joint Office and those recorded by WSD were due to the different bases adopted by Joint Office and WSD in classifying a referral case. The number of cases based on records of Joint Office was the number of completed cases with seepage source found to be originated from water-supply pipes. The number did not include other cases having been referred to WSD (e.g. cases requested by informants to be referred to WSD which did not involve water seepage from water-supply pipes).

The Government agrees to the Audit Report's recommendation that the list of referral cases should be submitted to WSD and the EBD of BD regularly for reconciliation purposes. To improve work efficiency, FEHD is now planning to update the management information system concerned, which, among other things, can maintain the information on cases referred to WSD and EBD of the BD and facilitate the keeping of records of case referral by Joint Office staff. It will also allow Joint Office to retrieve information directly from the system and to print out the list of referral cases regularly which will be sent to WSD and EBD of the BD for reconciliation purposes.

Problems regarding the records of seepage cases and nuisance notices

- 8. It is stated in para. 2.46 of the Report that in March 2008, FEHD promulgated an instruction requiring Joint Office staff of the 19 districts to maintain in each district a Water-seepage Case Monitoring (WCM) Database by using standalone computers for monitoring the progress of actions taken on water seepage cases. However, according to 2.47 of the Report, FEHD could not provide Audit with the database information. What is the reason for that? Does FEHD agree that the absence of the related information has impeded FEHD's monitoring and management of**

investigations, issuance of nuisance notices on water seepage cases, as well as Audit examination of the timeliness and completeness of actions taken by the joint-office operation in conducting investigations and issuing nuisance notices? How will FEHD improve the situation?

10. Further to the question above, according to para. 4.4, the new CMIS was rolled out by phases in December 2014 for implementation in the 19 FEHD districts. If the operation of WCM Database was affected by the implementation of the new CMIS, why was it impossible for FEHD to provide the records between March 2008 and December 2014? Has FEHD investigated whether maladministration was involved? Has any responsible officer being punished?

11. After December 2014, some problems were found in the implementation of the new CMIS. Why did they also affect the operation of WCM Database and even result in loss of records? Can FEHD explain this in details? Has FEHD investigated whether maladministration was involved? Has any responsible officer being punished?

8, 10 & 11

According to the guidelines issued in early 2008, Joint Office staff of the 19 districts should maintain in each district a WCM Database by using standalone computers to monitor the progress of actions taken on water seepage cases. The computer system was set up with the aim of facilitating the monitoring of investigation work of each water seepage case by the management staff in the respective districts. As the computer system was designed simply for keeping information in a standalone computer in the district concerned, staff of the district concerned had always had to wait in line to input the information that they had into the system (i.e. no more than one staff could input the information each time. As result, some staff were unable to input the information that they had into the system in a timely manner), which caused obstructions to the use of system by staff. Besides, during the above period of time, most of the Joint Office staff in the District Offices were contract staff. Given their high turnover rate, the continuity of the work was easily affected. The above also contributed to the staff's failure or delay in inputting the investigation information of the water seepage cases, affecting the completeness of the integrity of the Database to a certain extent. Due to the reasons above, in order to effectively record the investigation progress of each water seepage case and timely monitor the follow-up of cases, staff in some districts have changed the above forms into a spreadsheet to maintain a database which can better meet their actual needs. Such spreadsheet is kept in work computers for easy reference and for submission of

monthly returns to the FEHD Headquarters. As a result, some districts have adopted different formats in storing information on the investigation progress of water seepage cases in the work computers. Thus FEHD has failed to respond to Audit's request for a complete record in a standard format of the WCM Databases.

The Government shares the view of the Audit Report about the inadequacies of the WCM Databases maintained in the computer systems in the respective districts. FEHD has started to review the departmental instruction issued in March 2008 on maintaining the WCM Databases, and whether the Databases have been maintained in full compliance with the instruction, and will take necessary actions on proper maintenance of the Databases. Measures will also be taken to ensure that all related information in the system is updated in a timely manner. FEHD has also started to develop more effective and technically feasible means to capture data which will be useful for monitoring the progress of various actions taken on water seepage cases. In the long term, FEHD will explore means to enhance the existing CMIS or set up a new database system to capture information relating to the issuance of nuisance notices, in order to replace the current practice of recording information related to water seepage cases by using different WCM Databases and referral lists. By doing so, it will reduce the time it takes for frontline staff to log into different systems before inputting the information related to water seepage cases. It will also ensure the completeness of the information and improve the work efficiency.

The Government has investigated and found that Joint Office staff of FEHD maintained the data related to the handling of water seepage cases. At present, the process of handling water seepage cases in buildings is recorded clearly in paper files. Therefore, the investigation result showed that non-compliance was not found among Joint Office staff and no disciplinary action was taken.

9. In paragraph 2.48 of the Report, FEHD explained that some features of the WCM Database had been incorporated into the new CMIS. However, problems had been encountered when implementing the new CMIS. What are the problems? Have the problems been solved?

It is more complex to handle water seepage cases than other complaints. For example, an individual case may involve several sub-divided flats and therefore a number of layout plans and the photographs showing potential seepage area(s) in each flat in different investigation stages have to be kept on file. Also, in handling the cases, it is often necessary to refer to different layout plans and photographs at the same time.

From December 2014 onwards, FEHD has rolled out the new CMIS by phases for implementation in the 19 FEHD districts. During the period, FEHD frontline staff expressed their views that adopting the new CMIS to replace paper files in handling water seepage cases had increased their workload and it was time-consuming to handle the information. Frontline staff had to spend considerable time to scan and upload documents, especially the large ones. As a result, efficiency and effectiveness of the handling of the cases had been adversely affected.

Case officers are required to make reference to previous reports and other documents. It is often cumbersome and inefficient to retrieve files from the computer system and to fully replace paper files with a new system in handling water seepage cases. When preparing for prosecution actions for a case, original documents may need to be located for the purpose. It will be faster and more effective to follow the usual practice of opening a paper file when starting to handle a case, which will be used later for the relevant internal procedures.

In mid-July 2015, after extensively consulting frontline staff and thoroughly reviewing the system functions, the work processes and nature of the cases and operational needs, FEHD decided that Joint Office would ensure the proper follow-up on water seepage cases using paper files. Besides, the CMIS would be used for the record of progress of water seepage cases and for appropriate monitoring. FEHD considered it appropriate to adopt a pragmatic approach to implement the above-mentioned measures to help its staff improve their efficiency and effectiveness in handling water seepage cases while at the same time the new CMIS could generate necessary management information.

The FEHD has started taking actions to develop more effective and technically feasible means to maintain a database which is useful for monitoring actions taken on water seepage cases.

12. During the period that both the WCM Databases and the new CMIS are failed, how will FEHD ensure the proper follow-up of water seepage cases?

FEHD has taken the following measures to ensure that case officers will follow up on complaint cases (including water seepage cases) properly:

The FEHD Administrative Circular on Handling of Complaints requires supervisors to oversee the progress of cases undertaken by their subordinates, and conduct sample

checks to ensure that complaint cases are handled appropriately, and properly and timely recorded in the CMIS.

Every month, the Complaints Management Section sends emails regularly to remind staff to handle complaints within the set timeframes according to the FEHD guidelines and to accurately and timely record the case details and the latest progress in the CMIS. Supervisors are reminded to oversee the progress of cases undertaken by their subordinates; to monitor outstanding cases with the use of monthly analytical data and identify the reasons for such cases to remain pending, and to provide their subordinates with necessary guidance / assistance with a view to completing the cases as soon as possible.

Overdue cases have been put as standing agenda items for discussion at management meetings at Headquarters and district levels for monitoring of the case progress.

Monthly reports of overdue water seepage cases contain statistics on overdue cases and their details including the overdue time, case number, name and post of the Case Officer as well as the case progress (i.e. Stages I, II or III investigations), so that supervising officers can effectively monitor their staff and assist them to resolve the overdue cases.

In light of the implementation of the new CMIS rolled out by phases in December 2014, and that frontline staff expressed the problems they encountered in using the new system, FEHD decided that Joint Office would ensure the proper follow-up on water seepage cases using paper files. Besides, the CMIS would be used for the record of progress of water seepage cases and for appropriate monitoring. A weekly summary report would be sent to each Case Officer and their supervisors to remind them to handle the outstanding cases. The system is also equipped with an alerting function. For cases in which a reply cannot be given to the complainant within the established timeframe, an alert will be issued to remind the Case Officers and their supervisors about the contents and timeframes of the outstanding cases (e.g. the time frames to issue an interim reply or substantive reply) to enhance monitoring.

FEHD's Administrative Circular on Handling of Complaints reminds staff and supervising officers that all complaint case files should be maintained and kept properly. The originals of the documents concerned, in particular those which may be produced as evidence, should be duly kept in the working files.

13. Will FEHD review and reform the whole monitoring system of handling water seepage cases?

FEHD agreed with the view expressed in the Audit Report about the inadequate monitoring system of handling water seepage cases, and has started to review the departmental instruction issued in March 2008 on maintaining the WCM Databases, and whether the Databases have been maintained properly. Measures will also be taken to ensure that all related information in the system is updated in a timely manner. FEHD has also started to develop more effective and technically feasible means to capture data which will be useful for monitoring the progress of various actions taken on water seepage cases.

In the long term, FEHD will explore means to enhance the existing CMIS or set up a new database system, so that BD and FEHD Joint Office staff can keep the progress of various investigations in the CMIS or the new database, monitoring the investigation and follow-up progress more properly and comprehensively. To enhance the efficiency of handling water seepage reports, the management of BD and FEHD will also continue to regularly review whether there is further room for improvement on the system of the Joint Office. The review is expected to be completed in 2017.

14. It is stated in para. 2.52 and 2.53 that FEHD required Joint Office staff of all districts to maintain an Nuisance Notices Monitoring List (NNM List). However, 14 out of 19 districts failed to include one or more of the following items of information in the NNM List:

- date of serving a nuisance notice;**
- date of expiry of a nuisance notice; and**
- dates of conducting follow-up inspections of a nuisance notice.**

According to Table 5 in para. 2.53, 10 districts did not even provide the above records. What is/ are the reason(s)? Has FEHD conducted any investigation? Has any officer being punished?

15. Further to the above question, when did the FEHD's requirement on maintaining the NNM List come into effect? Has FEHD conducted regular inspection since the requirement came into effect? What is the last date of record which is still kept by FEHD? Why has FEHD not kept such records after that date? Has FEHD investigated whether maladministration was involved? Has any responsible officer

being punished?

16. Besides, it is mentioned in para. 2.54 that none of the districts recorded the results of compliance inspections and the date of referring a case to the FEHD Prosecution Section for taking enforcement actions. What difficulties did the responsible officers encounter and what is/are the reason(s) for failing to observe the requirement? Does the FEHD agree that the absence of related information has impeded the FEHD's monitoring of follow-up actions on nuisance noticed issued and Audit's examination of the completeness and timeliness of the FEHD in discharging its duties in this area? How will FEHD improve the situation?

14, 15 and 16

According to the guidelines issued by FEHD in 2006, Joint Office staff members of all District Offices are required to keep an NNM List. As the guidelines do not set out the specified format of such list and the information required, some staff of individual District Offices only put the Nuisance Notices monitoring information in separate paper files. As a result, some of the staff members failed to promptly provide a properly organised NNM List for the Audit Commission's review. Besides, the keeping of relevant information as required by the guidelines is mainly for record purpose and FEHD does not conduct random checks regularly in this respect.

The Audit Report pointed out and FEHD agreed that there was inadequacy in terms of keeping an NNM List by FEHD Joint Office. To improve work efficiency, FEHD is now looking into the possibility of upgrading the current CMIS, or establishing a new database system to record the information related to the issuance of Nuisance Notices.

Part 4 : Management Information System and Performance Reporting

Issues of the Management Information System

17. It is mentioned in paragraph 4.4 that, in July 2012, FEHD engaged a contractor at a cost of \$7.3 million to develop a CMIS. However, as paragraph 4.9 reveals, the new functions had not been fully implemented for the joint-office operation seven months after implementation of the new system in December 2015. As of July 2016, only basic information of new water seepage cases was input into the new CMIS by the 19 districts. What difficulties did FEHD staff encounter so that they failed to carry out this important administrative task? Could the poor efficiencies of the joint-office operation be attributed to the above reason? Does FEHD agree that the

new functions had not been fully implemented for the joint-office operation, causing inefficiency for the FEHD's management to monitor performance and progress of the cases? What measures will FEHD take to improve the situation? Further to the above question, at the time when the new functions of the new CMIS had not been fully implemented, how did FEHD guarantee water seepage cases were handled properly? When does FEHD expect the functions of the new CMIS be fully implemented?

FEHD is now generally adopting the new CMIS for all cases that require handling. The new system covers various kinds of complaints and water seepage is only one of them. As complaints are of different nature whereas the handling of them calls for different operational needs, it is necessary to determine the proper procedures and system functions according to the actual circumstances of various kinds of complaints, so as to fully facilitate staff to handle complaint cases effectively and efficiently.

It is more complex to handle water seepage cases than other complaints, which usually involved a large number of reference documents. For example, an individual case may involve several sub-divided flats and therefore a number of layout plans and the photographs showing potential seepage area(s) in each flat in different investigation stages have to be kept on file. Also, in handling the cases, it is often necessary to refer to different layout plans and photographs at the same time.

From December 2014 onwards, FEHD has rolled out the new CMIS by phases for implementation in the 19 FEHD districts. During the period, FEHD frontline staff expressed their views that adopting the new CMIS to replace paper files in handling water seepage cases had increased their workload and it was time-consuming to handle the information. Frontline staff had to spend considerable time to scan and upload documents, especially the large ones. As a result, efficiency and effectiveness of the handling of the cases had been adversely affected.

Case officers are required to make reference to previous reports and other documents. It is often cumbersome and inefficient to retrieve files from the computer system and to fully replace paper files with a new system in handling water seepage cases. When preparing for prosecution actions for a case, original documents may need to be located for the purpose. It will be faster and more effective to follow the usual practice of opening a paper file when starting to handle a case, which will be used later for the relevant internal procedures.

In mid-July 2015, after extensively consulting frontline staff and thoroughly reviewing the system functions, the work processes and nature of the cases and operational needs, FEHD decided that Joint Office would ensure the proper follow-up on water seepage cases using paper files. Besides, the CMIS would be used for the record of progress of water seepage cases and for appropriate monitoring. FEHD considered it appropriate to adopt a pragmatic approach to implement the above-mentioned measures to help its staff improve their efficiency and effectiveness in handling water seepage cases while at the same time the new CMIS could generate necessary management information. FEHD has started taking actions to develop more effective and technically feasible means to maintain a database which is useful for monitoring actions taken on water seepage cases. The study is expected to be completed in 2017.

In addition, as regards how FEHD guarantees that water seepage cases are properly followed up, please refer to the FEHD's response mentioned in Question 12 above.

18. In paragraph 4.12 of the Report, Audit has recommended that FEHD and BD should consider implementing a comprehensive database system for sharing all related data and scanned copies of documents among the systems, so as to improve the data and record keeping and updating of water seepage cases. In this connection, have the two departments drawn up any timetable to take forth the recommendation?

As stated in paragraph 4.17 of the Audit Report, the FEHD will make enhancements to the CMIS in collaboration with the BD in order to facilitate the implementation of the comprehensive database system. The Working Group set up by the FEHD and the BD to implement the project is now developing the details of the enhancements and drawing up the implementation timetable.

19. According to para. 4.22, FEHD and BD have not set performance targets on the overall timeframe for completing a water seepage case and the success rate of identifying the water seepage source under the joint-office operation. Does the FEHD agree that informants of water seepage cases and the public are mostly concerned about the time taken in and the success rate of identifying the seepage source by the joint-office operation and that the absence of such performance targets represent a failure in meeting public expectations? Will the Government set such performance targets?

The time taken to complete a case and the success rate of identifying the seepage source depend on case circumstances and other external factors that are beyond the control of the Joint Office. Investigations on simple and straightforward water-seepage cases usually complete within 90 working days (i.e. around 133 calendar days). At present, Joint Office has not set performance targets for water-seepage cases on the overall completion timeframe and the success rate of identifying the seepage sources. As mentioned in the Audit Commission's report, the absence of performance targets in these two areas is not in line with public expectations. The FEHD and the BD agree with the Audit's recommendation above that the performance targets of the Joint Office should be made known to the public to enhance transparency. Besides, the two departments are now examining in depth the feasibility of formulating performance indicators for handling water seepage cases which will be published regularly.

YOUR REF 來函檔號： CB4/PAC/R67
OUR REF 本署檔號： L/M(8) to BD CR/4-35/2 C
FAX 圖文傳真： 2625 0324
TEL 電話： 2626 1131

9 January 2017

Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong
(Attn: Mr Anthony CHU)

Dear Mr CHU,

Public Accounts Committee
Consideration of Chapter 9 of the Director of Audit's Report No. 67

Joint-office operation on water seepage in buildings

Thank you for your letter of 19 December 2016. We are pleased to provide the following response/information as requested.

Water Seepage Source-identification Success Rate (Success Rate) (Question 1)

2. The Audit Report states that after the establishment of the Joint Office (JO) formed by the Food and Environmental Hygiene Department (FEHD) and the Buildings Department (BD), the success rate of identifying the source of water seepage had decreased progressively from 46% in 2007 to 36% in 2015. The Government, after review, summarised the major reasons of decrease as follows:

- (a) In recent years, the public has become more aware of the services provided by the JO and less tolerant of the water seepage having a lower moisture-content level. Hence, the public's demand for JO's services has increased considerably. This is reflected in the significant increase in the number of cases reported by the public from 17,405 in 2007 to 29,617 in 2015; and

(b) The BD has been conducting periodic reviews on the success rate of the water seepage cases handled by the JO. The reviews revealed that the higher the moisture-content level of the seepage area, the more the number of successful cases. In addition, the BD had recently conducted a sample survey of some 100 screen-in cases completed from 2006 to 2016 and noted that the proportion of low moisture-content cases (between 35% to 50%) has increased drastically from about 1:30 in the period from 2007 to 2009 to about 1:4 after 2009, thus leading to a decrease in the success rate.

3. To address the challenge in handling water-seepage cases at low moisture-content level, the BD commissioned a consultancy study on the latest technological methods for identifying the source of water seepage in buildings in 2014. The consultant will assess and recommend the most suitable testing methods as well as help formulate technical guidelines for use by the JO for handling water-seepage cases. This study will be completed in 2017.

Efficiency and Effectiveness in Handling Water-seepage Cases (Question 2)

4. The significant increase in the number of water-seepage case reports in recent years has resulted in a surge in JO's workload and longer time in completing the cases, especially the complicated ones. In addition, before the JO operation became a permanent arrangement in April 2014, the majority of BD JO staff were contract staff whose turnover rate was high due to grim career prospects. As a result, the work efficiency was affected and a large amount of backlog cases were created in the early stage. Besides, the manpower strength and staff's experience by then were unsatisfactory. With a more stable workforce being progressively established since April 2014, the performance of the JO has improved.

5. The guidelines about completing the investigation of water-seepage cases normally within 90 working days (i.e. about 133 calendar days) provide indicative timeframes for simple and straightforward cases where the co-operation of the concerned owners/occupiers are obtained (i.e. cases not involving any problem for investigators to gain access to the premises concerned, not involving difficulties to trace the seepage source, not involving multiple seepage sources nor multiple tests and not requiring Government Laboratory's confirmation of results

of seepage-source tests). In complicated cases (e.g. those involving more than one bathroom or several seepage locations), multiple visits for investigation and tests will be required. In some special cases, additional visits to the complainant's premises may be required for confirming the test results or monitoring any changes in the seepage condition. The actual timeframe for completing a case will vary depending on the complexity of the case, the testing methods used, and the workload and manpower situation of the JO. A case will require longer time to complete if it involves laboratory testing of samples, sub-divided flats or if an application for an entry warrant from the Court is needed.

6. The Government also finds it less than satisfactory that JO takes a long time to handle some water-seepage cases, as pointed out in the Audit Report, and agrees that there is room for improvement. In recent years, the continual increase in the cases of reports on water seepage in buildings and the uncooperative attitude of individual occupiers under complaint who rejected JO staff's entry for investigation and made unreasonable requests have led to an increase in the workload of the investigators and their time spent on paperwork, resulting in longer processing time. Nevertheless, as highlighted in paragraphs 2.15 and 2.16 of the Audit Report, JO has set reference completion timeframes for simple and straightforward cases to monitor the investigation progress.

7. To enhance the effectiveness and efficiency of JO, FEHD and BD are taking measures to enhance the Complaints Management Information System (CMIS) to improve the JO staff's efficacy in monitoring the progress of the investigations and ensuring timely actions by contractors. Moreover, in recent years, JO has been proactively seeking resources to convert the current non-civil service contract staff positions to civil service grades, in a bid to lower the turnover rates and enhance the efficiency. Besides, JO has stepped up its publicity efforts regarding the handling of water seepage in buildings, so that the public will clearly understand that proper management and maintenance of buildings are the responsibilities of every property owner. If water seepage is found in buildings, the owners should first arrange their own investigation of the cause of seepage, and co-ordinate with the occupants and owners concerned for conducting repair works as soon as possible.

Referrals of Building-safety Issues and Water Wastage (Question 3)

8. During investigation, if the JO has found that the seepage has given rise to building-safety issues and/or the seepage is originated from leaking water-

supply pipes, it will refer the cases to the responsible departments to take follow up action within their respective purview according to the inter-department arrangement. Meanwhile, the JO will continue and complete the investigations under the Public Health and Municipal Services Ordinance (Cap. 132). The respective departments will start following up the cases upon receiving JO's referral and will reply to the informants in writing direct with a copy to JO for reference. As such, the JO can check the progress of the follow-up actions from the case files.

Success Rates of Contractors (Question 4)

9. As explained in paragraph 2 above, the success rate will be affected by the moisture-content level of the cases. Hence, it is not appropriate to use the success rate for assessing the contractors' performance. For instance, as shown in Table 6 of the Audit Report, Contractor F was awarded with two contracts in 2014 but its success rate under one contract is 9% lower than the other. To assess the contractors' performance, the BD has been making reference to their timeliness in meeting the contract milestones and the quality of the contract deliverables.

Monitoring Contractors' Performance (Questions 5 – 7)

10. As explained in paragraphs 5 and 6 above, the contractors may require longer investigation time to handle complicated cases and cases with access problem. To closely monitor contractors' performance, the contractors have to submit bi-weekly progress reports and attend bi-weekly co-ordination meetings with the JO for the latter to regularly monitor the case progress and find out the reasons for slippage in progress.

11. For delays that a contractor fails to provide justifiable reasons, the BD may issue a warning letter. During the contract period, the BD issues quarterly appraisal reports on the contractor's performance and a final performance report upon completion of the contract. The BD may issue an adverse performance report to a contractor who has been issued with warning letter(s). A contractor who has been issued more than one consecutive adverse performance reports under the same contract will be suspended from bidding the BD's contracts for a certain period of time. In the past 10 years, the BD issued 28 warning letters and 3 quarterly adverse performance reports to the outsourced contractors.

12. Apart from imposing sanctions on contractors having unsatisfactory performance, the BD is exploring appropriate incentive to encourage contractors to strive more efforts to perform better, such as prompt submission of deliverables. In this connection, the BD is studying the applicability of the New Engineering Contract with pain-gain share payment method, integrating partnering to contractual relationship, etc. which is becoming common in public works projects and is being promoted to the construction industry by the Works Branch of the Development Bureau.

13. To further enhance monitoring of contractors' performance, the CMIS will be enhanced to covering case management, reminders, alerts and statistical reporting functions for Stage III investigations.

Contractors' Bi-weekly Progress Reports (Question 8)

14. As explained in paragraph 3.27(a) of the Audit Report, contractor's bi-weekly progress reports serves as a quick reference for monitoring work progress and contractors' performance during the bi-weekly co-ordination meetings. They are transient summaries of all the assignments for the contracts and the relevant information in the reports will be input to the BD JO case records. Hence, upon completion of all the assignments in a contract, the related progress reports are no longer required and will not be kept.

BD JO Case Records (Question 9)

15. These are contract based records in spreadsheet format maintained by BD JO staff to facilitate monitoring of the respective contractors' cases progress. Upon completion of all assignments in a contract, the related case records are no longer required and would not be retained. To improve the effectiveness in monitoring these cases, the CMIS will be enhanced to incorporate these case records.

CMIS (Question 10)

16. As stated in paragraph 4.17 of the Audit Report, the FEHD will make enhancements to the CMIS in collaboration with the BD in order to facilitate the

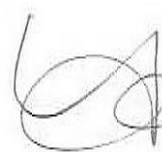
implementation of the comprehensive database system. The Working Group set up by the FEHD and the BD to implement the project is now developing the details of the enhancements and drawing up the implementation timetable.

Performance Reporting (Question 11)

17. The time taken to complete a case and the success rate of identifying the seepage source depend on case circumstances and other external factors that are beyond the control of the JO. Investigations on simple and straightforward water-seepage cases usually complete within 90 working days (i.e. around 133 calendar days). At present, JO has not set performance targets for water-seepage cases on the overall completion timeframe and the success rate of identifying the seepage sources. As mentioned in the Audit Commission's report, the absence of performance targets in these two areas is not in line with public expectations. The FEHD and the BD agree with the audit recommendation above that the performance targets of the JO should be made known to the public to enhance transparency. The two departments are now examining in depth the feasibility of formulating performance indicators for handling water-seepage cases which will be published regularly.

18. Should you have any queries, please contact the undersigned at 2626 1131.

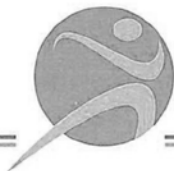
Yours sincerely,



(T C YU)

Assistant Director/Existing Buildings 2
for Director of Buildings

c.c. 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)



康樂及文化事務署
Leisure and Cultural Services Department

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10 January 2017

Mr Anthony CHU
Clerk,
Public Accounts Committee
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. 67
Audience building activities for performing arts

I refer to your letter dated 19 December 2016 to the Director of Leisure and Cultural Services.

Our reply in response to the matters as set out in your aforesaid letter is at the Appendix.

Yours sincerely,

(Dr Louis NG)
Deputy Director (Culture)
for Director of Leisure and Cultural Services

Encl

c.c. Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

Chapter 10
of the Director of Audit's Report No. 67
Audience Building Activities for Performing Arts
Questions Raised and Information Required

Questions to be responded by the Leisure and Cultural Services Department

PART 2: PLANNING OF AUDIENCE BUILDING ACTIVITIES

Question:

- (1) In the case quoted in paragraph 2.7 of the Report, an arts group was commissioned by the Audience Building Office (ABO) under the School Performing Arts in Practice Scheme to provide instrumental music training to primary school students who had not received music training before. Meanwhile the Music Office (MO) was organising an instrumental music training scheme targeting people aged 6 to 23. Did ABO notice that MO was also organising instrumental music training at the same time? What were the measures taken by the Leisure and Cultural Services Department (LCSD) to coordinate the efforts of ABO and MO to ensure that the resources for instrumental music training were fully and appropriately utilised?

Reply:

- (1) The Audience Building Office (ABO) maintains good communication with the Music Office (MO) in planning school music programmes, and MO's expert advice will be sought whenever necessary to ensure appropriate allocation of resources. ABO and MO play complementary role in organising audience building activities.

Currently, LCSD prepares annual programme plans and co-ordinates among programme offices to optimise the use of resources through daily contacts and programme plan meetings among different offices. The case quoted in paragraph 2.7 of the Report refers to the "Music of the Heart" Orchestra in Practice

Project under the “School Performing Arts Practice Scheme”, which is designed for students without music background. It helps nurture the interest and enhance the knowledge in orchestral music. The objectives, positioning and target service recipients of the Project differ from the instrumental music training scheme organised by MO. The latter, aiming at nurturing local young music talents, offers beginners to grade 8 level training in more than 30 Chinese and Western musical instruments, and comprises 3 independent courses of instrumental and musicianship training, namely, a two-year Elementary Course, a three-year Intermediate Course, and a three-year Advanced Course.

Question:

- (2) According to paragraph 2.13(b), LCSD will re-examine the procedures for preparing annual programme plans. Please advise on its progress as well as the timing for the formulation and implementation of the overview of the annual programme plan.

Reply:

- (2) At present, LCSD prepares annual programme plans and co-ordinates among programme offices to optimise the use of resources through daily contacts and programme plan meetings among different offices.

In response to the recommendation of the Audit Commission, LCSD is now re-examining the current mechanism to formulate the annual programme plan. In 2017-18, LCSD will put in place a mechanism to prepare and coordinate an overarching annual programme plan on audience building activities for performing arts covering all programme offices (including the Music Office) of LCSD for 2018-19.

PART 3: AUDIENCE BUILDING ACTIVITIES OF THE AUDIENCE BUILDING OFFICE

Question:

- (3) Regarding the response of LCSD in paragraph 3.7(b) of the Report, please provide the percentage of attendance to the respective

activities by LCSD officers and the number of surprise checks conducted in each of the past three years to monitor the activities and counter check the attendance. Did LCSD officers attend the concerts mentioned in Cases 2 and 3 in paragraph 3.6 of the Report? If so, did they notice that there were some issues with the attendance rate? If not, is there a need for the Department to step up surprise checks so that events would be appropriately monitored?

Reply:

- (3) In deciding the number and venues to be attended by subject officers for inspection and checking, LCSD will take into account factors such as the experience of arts groups in organising the activities, the total number, location and time of activities organised, level of support provided by the venues, complexity of activities, etc. Every year the number of activities under the Scheme varies.

In the past three years, LCSD officers conducted 236 (2014), 259 (2015) and 208 (2016) inspection visits to the activities, representing over 40% of the activities held each year. Whilst LCSD officers did not pay visits to Case 2 and Case 3 mentioned in paragraph 3.6 of the Report, officers paid a total of 19 visits to the identical concerts presented by the two arts groups held at other venues. We have accepted the recommendation of the Audit Commission to issue clearer guidelines on the estimation of attendance to the arts groups and subject officers to improve the accuracy of the estimation. We shall also review the number of inspection visits whenever necessary to enhance monitoring of the performances.

Question:

- (4) According to paragraph 3.18 of the Report, as at July 2016, 93 schools (including 67 international schools or private schools) in Hong Kong had never participated in any school schemes. LCSD responded in paragraph 3.19(c) that among those 93 schools many of them had a curriculum different from mainstream schools and could have more resources in organising their own arts programmes. Does it mean that the school schemes are actually not targeted at them? If not, what measures were taken by the

Department to satisfy their needs for arts programmes?

Reply:

- (4) Whilst the school arts programmes organised by LCSD target all primary and secondary schools in Hong Kong and LCSD disseminates relevant information to all primary and secondary schools including special schools, it is up to individual schools to decide whether to join the programmes taking into account the profile, interest and capacity of their students and staff, extra-curricular activities, availability of resources, etc.

LCSD's programmes intend to complement rather than substitute schools' own provision. We offer a variety of choices in art forms, types of educational activities, date, time and venues for schools' selection in order to meet the needs of different schools. Where resources are available, programmes are specially designed to attract the participation of schools with special requirements, such as English speaking or special schools which have never participated. Currently, activities organised by LCSD have generally taken care of the different needs of most schools in arts education. We will continue to reach out to non-participating schools. Priority will be given to new participating schools and their successful rate is very high. We will also gauge the opinions of non-participating schools through different channels to evaluate the different types of school schemes and enrich their content to meet the needs of the schools for arts activities.

Question:

- (5) According to paragraph 3.14 of the Report, LCSD will continue to assist arts groups under the community schemes to identify suitable venues for staging audience building activities. However, it did not commit itself to provide arts groups as far as practicable with available time slots and facilities for holding activities. Will the Department consider taking the initiative to invite applications from arts groups under community schemes and accord priority to the hiring of available time slots of its venues?
- (6) Was there a mechanism for inviting the hiring of available time slots from arts groups under community schemes? Were they given priorities when hiring these time slots? Did the Department

take the initiative to encourage hiring of available time slots for audience building activities at its venues?

- (7) Has LCSD conducted any studies on the modes, habits, needs and difficulties relating to the use of venues by arts groups with a view to formulate measures, such as streamlining the application procedures and strengthening the dissemination of information, to facilitate the use of LCSD venues? If yes, what are the details of the findings and the follow-up actions? If no, will the Department consider launching such studies in the near future? If yes, what is the work plan? If no, what are the reasons?

Reply in response to Questions (5) to (7):

By nature, LCSD's community audience building activities are basically outreach activities organised to bring performing arts into the community and widen the audience base. In order to appeal to the general public and target groups for wider participation, it is more preferable to hold more audience building activities at convenient locations throughout the territory such as shopping malls, community halls, elderly centres, parks, piazzas and pedestrian zones away from the performing venues managed by LCSD. It is worth highlighting that the competition for LCSD's performing arts venues is extremely keen at peak periods and the utilisation is near saturation. It would not be conducive to the healthy and sustainable development of the arts sector if LCSD reserves more slots for its own use for organising audience building activities.

Through the rigorous selection process, years of experience in launching community schemes and on-going liaison with art groups, LCSD has a good understanding of the modes, needs and difficulties encountered by arts groups in the use of venues. Whilst the arts groups are responsible for the implementation of the approved projects including the securing of venues for their proposed activities, LCSD has all along taken the initiative to help identify suitable venues in various districts for the groups. LCSD will reserve some vacant time slots of suitable LCSD venues in advance for certain arts groups in organising audience building activities. Apart from booking LCSD cultural venues for the arts groups, the subject officers will also help liaise with LCSD leisure venue management, district-based non-governmental organisations and commercial organisations whenever applicable and to provide

administrative support on venue booking. LCSD's efforts in assisting arts groups in securing suitable venues are recognised by the participating arts groups. Looking ahead, LCSD would consider organising more audience building activities at music centres and ancillary facilities of civic centres with lower utilisation rates. We would encourage and help arts groups to make use of these venues if the available times slots fit their event schedule and target groups.

PART 4: AUDIENCE BUILDING ACTIVITIES OF THE MUSIC OFFICE

Question:

- (8) As reflected from paragraph 4.21 of the Report, many Music Officers and Assistant Music Officers spent quite a lot of work hours on non-music training work, particularly administrative work. For 6 Assistant Music Officers and 3 Music Officers, none of their work hours was used for delivering music training courses and other music activities during 2015/16 school year. Please describe the duties of the 9 officers during the school year and advise if their duties could be discharged by administrative staff? Has LCSD ever considered transferring duties not directly related to music training from the responsibilities of Music Officers to professional arts administrators so that the former can focus on music training? Meanwhile, since the popularity of different musical instruments among members of the public, in particular the youth, may fluctuate from time to time, Music Officers on civil service terms may not be able to fully satisfy the ever changing needs for instrumental training. Did the Government review the establishment and responsibilities of the Music Officer grade or deploy more instructors on non-civil service contract terms for teaching less popular instruments to optimise the work time of the Music Officers and the instructors?
- (9) As shown in Figure 3 under paragraph 4.21 of the Report, Assistant Music Officers and Music Officers used only 36% of their work hours for delivering music training courses and other music activities during 2015/16 school year. However, part-time instructors were required to give classes under various music training schemes and outreach music interest courses. Would the Department regard such arrangement as satisfactory? Will it

consider taking measures to co-ordinate and optimise the use of staff resources mentioned above?

- (14) In paragraph 4.50 of the Report, the Audit has recommended that LCSD should review the mode of operation of the Music Office (MO). However, specific work plan for the review was not provided in the response from LCSD under paragraph 4.51. As greater flexibility will bring about effective promotion of cultural and arts activities, will the Government re-consider if MO should remain part of LCSD? Will the Government consider conducting a review and study on this fundamental structural issue in the near future?

Reply in response to Questions (8), (9) and (14):

The Activities and Promotion (A&P) Unit of the Music Office (MO) organises over 400 music activities and 260 Outreach Music Interest Courses each year. Whilst the nine staff members of A&P Unit do not directly conduct classroom teaching, they deliver duties directly pertaining to music education and promotion. Specifically, they perform the following functions which require solid expertise and network in music profession:

- (a) recommending the appointment of part-time music instructors who are directly involved in delivering Outreach Music Interest Courses;
- (b) conducting class inspections of the outreach courses for quality control; and
- (c) coordinating the organisation of music activities such as concerts in conjunction with other units of MO, venue management, schools and community organisations.

As regards MO as a whole, the Government has reviewed the development of MO over the years and concluded in 2015 that MO should be managed under LCSD and re-incorporated into the Civil Service as a long-term arrangement having regard to MO's unique role in providing quality music training for young talents, promoting cultural exchange and strategic partnership between Hong Kong and other regions, fostering synergy with LCSD and other government departments, complementing school education and the education sector and promoting arts at the district and territory-wide levels. To this end, MO will maintain a core staff of Music Officer grade members whilst retaining the flexibility to

engage part-time instructors with music expertise to complement its in-house full-time staff. This set-up seeks to ensure quality, stability and cost-effectiveness in upkeeping MO's strategic areas such as ensemble and musicianship training and key instrumental classes whilst offering a variety of training in more than 30 musical instruments required in Chinese and Western orchestras and bands. While MO staff are professionally qualified for instrumental music training, they cannot teach every type of instrument. Therefore for some particular instruments, it is necessary, more cost-effective and optimal to employ professional instructors on a part-time basis. In 2015-16, MO engaged a total of 100 part-time instructors.

Similar to the operation of schools and universities, MO colleagues' music education-related work is not confined to time spent in the classrooms. "36% of the working hours" in question only includes duties that are directly related to the delivery of music training courses and other music activities such as classroom teaching, school programme performances and music accompaniment. Other music-related supporting duties, such as class preparation for instrumental/band/orchestra/choir training, supervision and management of band, orchestra and choir, administrative and clerical work, and staff supervision, are in fact also essential to the quality delivery of music training courses.

Question:

- (10) According to paragraph 4.25 of the Report, the Music Office (MO) generally will specify the standard class size of each training course (mostly ranging from 5 to 10 trainees). Paragraph 4.26, however, shows that many training classes had a very small class size in 2015/16 school year, including five training classes each having only one trainee. Why did MO not consolidate classes which fell short of the minimum class size to better utilise the resources? How would the Department improve this situation in the future?

Reply:

- (10) Currently, the minimum number of trainees for each class is two. For classes which fall short of the minimum class size, subject officers are required to consolidate them with other suitable classes

within a month. Some instruments are less popular than the others but training classes are still required for feeding players to bands/orchestras of the Music Office (MO) and schools for the sustainable development of local youth orchestras and bands. MO will step up the promotion of these classes to improve the enrolment rate.

Question:

- (11) Paragraph 4.39 of the Report points out that, from 2013/14 to 2015/16 school years, the number of training sessions delivered each year under music training schemes and outreach music interest courses was about 43,000 sessions. However, the number was equivalent to only 29% of the capacity of the music centres. How long has it been going on? Did LCSD introduce any improvement measures? Has LCSD considered handing back unused or under-utilised music centres to the Government for other purposes? If not, what are the reasons?
- (12) Paragraph 4.43 of the Report points out that, measures would be taken to improve the usage of the music centres under the Music Office. According to media reports earlier, some music and arts practitioners and groups had difficulties in hiring LCSD facilities for music rehearsals. In this connection, will LCSD consider taking the initiative to communicate with them and understand their difficulties? In order to meet the needs of the arts and music circle, will LCSD also consider streamlining application procedures for hiring and enhancing the flexibility of the use of facilities to improve the usage of the music centres especially during non-peak hours?
- (13) Did LCSD exchange views with the music and arts practitioners and groups on the use of facilities at the music centres under the Music Office? Did the Department examine their needs for its facilities and their opinions on the application procedures? If yes, what are the details, results and follow-up actions of these exchanges? If no such efforts were made in the past, will the Department consider taking the initiative in this respect in the future? If not, what are the reasons?

Reply in response to Questions (11) to (13):

The five music centres in Hong Kong Island, Kowloon Central, Kowloon East, New Territories East and New Territories West are designed and currently used for organising music training activities for the public, especially young people in the regions, and serve as workstations of the Music Office staff. As the priority use of the centres are for organising activities for student trainees, their core operating hours are from 4p.m. to 8p.m. on weekdays and from 9am to 6pm on weekends, and the average usage rate of the centres for these periods reached 70%. To optimise the usage of these venues during the non-peak hours (i.e. 9:30a.m. to 4p.m. on weekdays), LCSD will explore options in consultation with other departments, non-profit-making organisations and arts groups on the demand and feasibility of using these venues for audience building activities, training and rehearsals.

PART 5: AUDIENCE BUILDING ACTIVITIES OF URBAN AND NEW TERRITORIES VENUES SECTIONS

Question:

- (15) According to paragraph 5.6 of the Report, audience building activities held at the foyers or piazzas at LCSD venues had a higher number of participants. In paragraph 5.10, while LCSD accepted the recommendations of Audit Commission on foyer and piazza activities, no specific work plan was given. As many non-governmental organisations (NGOs) find it difficult to hire venues for different types of community or public education activities at relatively low charges, will LCSD consider inviting NGOs to hire its venues and relaxing hiring requirements to optimise venue resources? If so, what are the details? If no, what are the reasons?

Reply:

- (15) To foster the development of arts and culture in Hong Kong, LCSD has endeavored to organise audience building activities in collaboration with venue partners, non-governmental organisations (NGOs), District Councils, community organisations, arts groups and Consulate Generals. In 2016-17, the Hong Kong Cultural Centre collaborated with venue partners, NGOs, performing arts groups and Consulate Generals in staging about 70 programmes at its foyer and piazza areas. LCSD will continue to proactively

invite NGOs and other arts groups to organise arts-related activities with a view to encouraging more participation and support in the arts by the public.

LCSD offers piazza areas at the Hong Kong Cultural Centre, Sha Tin Town Hall, Tsuen Wan Town Hall and Kwai Tsing Theatre for hiring by the public and organisations to organise performing arts programmes, exhibitions and community activities. To support local arts and culture, concessionary rates are offered to non-profit making organisations who hire the piazza areas.

Question:

- (16) How many applications were received from community organisations, schools and non-governmental organisations for hiring foyers or piazzas at LCSD performing arts venues in the past three years? How many of them were successful? Did LCSD take the initiative to disseminate information on the availability of its foyers or piazzas to different organisations in the community? If no, how did these organisations file their applications?

Reply:

- (16) LCSD's Hong Kong Cultural Centre, Sha Tin Town Hall, Tsuen Wan Town Hall and Kwai Tsing Theatre have designated outdoor areas for hire for hosting performances, exhibitions, public entertainment and community events. In the past three years from 2013 to 2015, the total number of applications received from the concerned organisations (such as community organisations, schools and non-governmental organisations) and the total number of successful booking applications for events held at the outdoor areas of these four performing arts venues are 686 and 609 respectively.

LCSD has established a fair and transparent booking policy for its performing arts venues. The booking procedures and assessment criteria of all hiring facilities including plazas are made known to the public through 'Booking Arrangements' available at all venues and on LCSD's website.

On the other hand, foyers of LCSD's performing arts venues are non-hiring units due to limited space. They are primarily

intended for the safe circulation of audience before and after performances. Events are occasionally hosted to complement the performances.

Question:

- (17) In paragraph 5.15 of the Report, LCSD accepted the recommendation of the Audit Commission on further promoting the use of minor facilities of the performing arts venues. The problem of low utilisation of minor facilities of the performing arts venues is in fact fairly similar to that of generally low utilisation of music centres of the Music Office. Will LCSD consider tackling these two problems together and taking the initiative to approach community organisations and arts groups for hiring available time slots of its facilities? If so, what are the details? If no, what are the reasons?

Reply:

- (17) LCSD agrees with the recommendation of the Audit Commission to strengthen the collaboration among all relevant offices with a view to optimising the utilisation of minor facilities of performing arts venues and Music Office's music centres. These include assigning music centres or minor facilities with lower utilisation rate for audience building activities; collaborating with schools and arts groups to explore the use of the facilities for music activities and rehearsals; and encouraging and helping arts groups to make use of these facilities if the available slots fit their event schedule and target groups. In addition, the minor facilities of performing arts venue also provide concessionary hire charges to encourage arts organisations to utilise more of the non-prime time slots.

Question:

- (18) According to paragraph 5.23(a) of the Report, the Tai Po Civic Centre would be closed for upgrading works to improve the standard of its performance facilities. Please provide information on the commencement date, target completion date and the impact of the project on audience building activities at Tai Po district.

Reply:

- (18) LCSD will continue to process the facility upgrading of the Tai Po Civic Centre in accordance with the established funding mechanism for public works. The timetable of this project hinges on its success in securing funding approval having regard to the competing priorities in the Public Works Programme.

In the meantime, LCSD will continue to press ahead with the audience building activities in the Tai Po district using the Tai Po Civic Centre and other available venues in the district such as parks, sport grounds, housing estates and open spaces.

Question:

- (19) Please advise on the progress of relaying the recommendation of the Audit Commission to the Committee on Venue Partnership and the Cantonese Opera Advisory Committee as mentioned in paragraph 5.23(b) of the Report.

Reply:

- (19) The Venue Partnership Scheme (VPS) is in its third round in 2015-16 to 2017-18. LCSD is currently planning for the fourth round of VPS and will consult the Committee on Venue Partnership and Cantonese Opera Advisory Committee in 2017 regarding the recommendation of the Audit Commission on Ko Shan Theatre for enhancement of the Scheme.

Leisure and Cultural Services Department
10 January 2017

ACRONYMS AND ABBREVIATIONS

2013 Blueprint	Hong Kong Blueprint for Sustainable Use of Resources (2013-2022)
AA&I	Alterations, Additions, Repairs and Improvements
ABO	Audience Building Office
AMC	Air Mail Centre
APE	Approved project estimate
ArchSD	Architectural Services Department
ATCOs	Air traffic controllers
ATMS	Air Traffic Management System
Audit	Audit Commission
Audit Report	Director of Audit's Report
B/Ds	Bureaux and departments
BCIS	Building Condition Information System
BD	Buildings Department
C&D	Construction and demolition
C&ED	Customs and Excise Department
C&I	Commercial and industrial
CAD	Civil Aviation Department
CCF	Community Care Fund
CFC	Cooked food centre
CFHBs	Cooked Food Hawker Bazaars
CFMs	Public cooked food markets
CMIS	Complaints Management Information System
CSD	Correctional Services Department
CWPs	Capital Works Projects
DCs	District Councils

ACRONYMS AND ABBREVIATIONS

DOs	Offices of 19 Food and Environmental Hygiene Department districts
E. coli	Escherichia coli
EA Panel	Legislative Council Panel on Environmental Affairs
ECF	Environment and Conservation Fund
EDB	Education Bureau
EMSD	Electrical and Mechanical Services Department
EPD	Environmental Protection Department
FC	Legislative Council Finance Committee
FEHD	Food and Environmental Hygiene Department
FRT	First registration tax
FSD	Fire Services Department
FSE	Fire services equipment
FSTB	Financial Services and the Treasury Bureau
GLD	Government Logistics Department
HA	Hospital Authority
HAB	Home Affairs Bureau
HADF	Hospital Authority Drug Formulary
HKHA	Hong Kong Housing Authority
HKP	Hongkong Post
HKSIL	Hong Kong Sports Institute Limited
JO	Joint-office
JWG	Joint Working Group
LandsD	Lands Department
LCSD	Leisure and Cultural Services Department
LegCo	Legislative Council

ACRONYMS AND ABBREVIATIONS

LR	Land Registry
LSOs	Large-scale operations
MO	Music Office
MSW	Municipal solid waste
Mt	Million tonnes
NATS	National Air Traffic Services
non-HADF drug	Drug not listed on Hospital Authority Drug Formulary
NoP	University Grants Committee's Notes on Procedures
OWTF	Organic Waste Treatment Facility
PFI	Phased Functional Implementation
PH&MS Ordinance	Public Health and Municipal Services Ordinance (Cap. 132)
PR schemes	Producer responsibility schemes
PRH	Public rental housing
PRL	Private Recreational Lease
QAC	Quality Assurance Council
RGC	Research Grants Council
SF	Samaritan Fund
STS	Septic-tank-and-soakaway
TGMS	Third Generation Mobilizing System
THB	Transport and Housing Bureau
TOIL	Time-off in lieu
UBWs	Unauthorized building works
UGC	University Grants Committee
UNHCR	United Nations High Commissioner for Refugees
VS	Village sewerage

ACRONYMS AND ABBREVIATIONS

VSP	Vacant school premises
WPC Ordinance	Water Pollution Control Ordinance (Cap. 358)
WSD	Water Supplies Department