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 1999

AND THE RESULTS OF

VALUE FOR MONEY AUDITS (Report No. 33)

February 2000

P.A.C. Report No. 33

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The Establishment of the Committee The Public Accounts Committee are 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	The Hon Eric LI Ka-cheung, JP
Deputy Chairman	The Hon Fred LI Wah-ming, JP
Members	The Hon David CHU Yu-lin The Hon NG Leung-sing The Hon Mrs Sophie LEUNG LAU Yau-fun, JP The Hon LAU Kong-wah The Hon Emily LAU Wai-hing, JP
Clerk	Mrs Florence LAM IP Mo-fee
Legal Adviser	Mr Jimmy MA Yiu-tim, JP

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

(a) the public officers called before the Committee in accordance with Rule 72 of the Rules of Procedure, shall normally be the Controlling Officers of the Heads of Revenue or Expenditure to which the Director of Audit has referred in his Report except where the matter under consideration affects more than one such Head or involves a question of policy or of principle in which case the relevant Bureau Secretary 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 can assist the Committee in its deliberations;

(c) the Director of Audit and the Secretary for the Treasury shall be called upon to assist the Committee when Controlling Officers or other persons are providing information or explanations to the Committee;

(d) the Committee shall take evidence from any parties outside the civil service and the subvented sector before making reference to them in a report;

(e) the Committee shall not normally make recommendations on a case on the basis solely of the Director of Audit's presentation;

(f) the Committee shall not allow written submissions from Controlling Officers other than as an adjunct to their personal appearance before the Committee; and

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

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

- the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 1999; and

- the results of value for money audits (Report No. 33),

which were tabled in the Legislative Council on 17 November 1999. Value for money audits are conducted in accordance with the guidelines and procedures set out in the Paper on Scope of Government Audit in the Hong Kong Special Administrative Region - 'Value for Money Audits' which was tabled in the Provisional Legislative Council on 11 February 1998. A copy of the Paper is attached in ***Appendix 2***.

3. This Report also takes stock of the progress of the action taken by the Administration on the recommendations made in the Committee's Reports Nos. 30 and 31 and offers the Committee's views on the action taken. These are detailed in Sections III and IV of this Report.

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

Laying of the Report Report No. 30 of the Director of Audit on the results of value for money audits was laid in the Legislative Council on 18 November 1998. The Committee's subsequent Report (Report No. 30) was tabled on 10 February 1999, thereby meeting the requirement of Rule 72 of the Rules of Procedure of the Legislative Council that

the Report be tabled within three months of the Director of Audit's Report being laid.

2. **The Government Minute** The Government Minute in response to the Committee's Report No. 30 was laid in the Legislative Council on 5 May 1999. A progress report on matters outstanding from the Minute was issued on 11 October 1999. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 9 below.

3. **The provision of legal services by the Civil Division of the Department of Justice** (Chapter 2 of Part V of P.A.C. Report No. 30). The Committee were informed that:

Incorporation of the time-recording system in the Information Systems Strategy (ISS)

- the Department of Justice (D of J) had incorporated the time-recording system into the Work Management System (formerly known as the Electronic Tracking Project) of the ISS as part of the Civil Division's module. The system had been installed for use by the Civil Litigation Unit in the recovery of the costs of proceedings;

Implementation of the ISS

- the D of J had completed six projects out of a total of seven under the ISS Plan. As regards the remaining project (i.e. the Work Management System), the installation of the modules for the Legal Policy Division and the Law Drafting Division had been further delayed slightly owing to changes in IT personnel of the vendor and technical difficulties encountered by the vendor. It was necessary to revise some designs and longer time was required for system testing. Nevertheless, the modules for the two Division were being installed. The installation would be completed by the end of December 1999;

Defining productivity and performance measures

- the Civil Division had continued to make effective use of workload statistics to evaluate the growth in workload and the associated deployment of staff resources;

- with the completion of Work Management System and Information Centre Project under the ISS, the Division was able to generate timely statistics on workload, manpower and processing time;

Improving the monitoring mechanism in civil litigation cases

- all case files in the Civil Litigation Unit and the Debt Collection Unit had been bar-coded for easy monitoring of their movements. Moreover, file jackets in the Debt Collection Unit had been colour-coded for easy retrieval.

In addition, the D of J would conduct reconciliation between records of file allocation and actual files held by each counsel on a monthly basis and upon transfer of officers out of the Units. The D of J had taken various measures, such as maintaining a schedule of re-registration of the charging orders and a regular files brought-up system, to ensure timely re-registration and appropriate enforcement of charging orders;

- with the installation of the Work Management System, managers were provided with up-to-date information about work assignments and progress of cases handled by each counsel. This would enable the D of J management to monitor the civil litigation cases in a more effective way; and

Adopting cost recovery as a long term option

- the Administration would continue to keep in view the feasibility and cost-benefit of moving towards cost recovery in the provision of legal services by the D of J to other departments as a long term objective.

4. The Committee noted the measures taken by the Administration to address the issues raised by the Committee on the subject and that Audit would follow up the issues in the normal course of audit.

5. **Acceleration of works in the Strategic Sewage Disposal Scheme Stage I** (Chapter 3 of Part V of P.A.C. Report No. 30). The Committee were informed that:

- the Administration had accepted the Committee's recommendation that the works department concerned should critically assess the risk and cost of contract arrangement for time-critical projects. The Administration would ensure that this requirement was followed in addition to the general guidance given in the Project Administration Handbook. In future, the Drainage Services Department (DSD) would also advise the relevant policy bureaux and the client departments of the potential cost and risk involved at an early stage of implementing such projects. The DSD would issue a circular on this subject to supplement the guidance given in the Project Administration Handbook;

- for projects involving substantial underground works, the DSD would conduct more comprehensive site investigations to reduce as far as possible uncertainties posed by the variability of the ground conditions although it was not possible to wholly eliminate such uncertainties by pre-construction investigation. For tunneling works such as those to be implemented in the next stage of the Strategic Sewage Disposal Scheme (SSDS), working groups with the participation of the Geotechnical Engineering Office and tunneling experts would be set up to plan the detailed requirements of site investigation;

- it was already a standing Public Works Programme procedure that, during implementation of public works projects, works involving costs which would exceed the approved estimate should not be committed prior to the approval

of additional funds. The Administration would ensure that this requirement was observed and that project managers would fully assess the potential extra cost of such works taking into account all known risks;

- the remaining works of the SSDS Stage I comprised the construction of six deep sewage transfer tunnels with a total length of 23.6 km. Excavation of the tunnel from Kwai Chung to Tsing Yi had been completed in January 1999. The other five tunnels were under active excavation using five tunnel boring machines. As of end September 1999, 13.2 km or 56% of the total length had been excavated. Based on experience with the works to date, which had included several unexpected equipment breakdowns, as well as the possibility of having to undertake additional precautionary ground treatment in some locations, it was now estimated that completion of works on all tunnels would be in the second half of 2001. The remaining western tunnels was 68% complete, and was likely to be finished several months in advance of the eastern tunnels. This would double the sewage flow to the Stonecutters Island Sewage Treatment Works from 25% to 50% of the total sewage flow from the area covered by the SSDS scheme. The other works under the project had been substantially completed. In particular, the Stonecutters Island Sewage Treatment Works constructed under the SSDS Stage I had been in operation since mid-1997. At present, sewage collected from Northwest Kowloon, which constituted 25% of the total flow to be collected in the catchment areas of the project, was receiving chemically enhanced primary treatment at Stonecutters Island before being discharged through the 1.7 km long Stage I outfall to the west of Victoria Harbour; and

- the Administration was monitoring very closely the remaining tunneling works of the SSDS Stage I to ensure completion at an early date without compromising safety and was also making regular progress report to the relevant panels of the Legislative Council.

6. The Committee wish to be kept informed of the progress of the remaining works of the SSDS Stage I and note that consideration will be given to conducting an audit review in due course to ascertain the full cost of the SSDS Stage I and the factors leading to the budget overrun.

7. **Maintenance and procurement of government vehicles** (Chapter 5 of Part V of P.A.C. Report No. 30). The Committee were informed that:

Maintenance of vehicles

- the Electrical and Mechanical Services Trading Fund (EMSTF) had reduced its level of vehicle maintenance service charges by 5% to 15% with effect from April 1999 depending on the types of vehicles (as against the original target of 5% each year with an overall productivity improvement of 15% over a three-year period). The EMSTF was actively reviewing the organisation of its workshops in order to further streamline the staffing structure and improve the cost-effectiveness of its services;

Replacement of vehicles

- with the new computer module for its management information system, the Government Land Transport Agency (GLTA) had completed the analyses of the economic life of half of the government fleet in June 1999. The GLTA had been making reference to the results of the analyses in vetting departmental requests for replacement vehicles in 2000-2001;

- the GLTA planned to calculate the economic life of the remaining vehicles in the government fleet before June 2000;

Supernumerary and surplus vehicles

- the number of supernumerary vehicles had further decreased from 239 as at end of February to 185 as at end of August 1999. They were all required to meet short-term operational requirements;

Allocation of responsibilities for vehicle procurement

- through close cooperation and communication between the GLTA and the EMSTF, the existing procedures for vehicle procurement had been streamlined. Nevertheless, the Administration would continue to explore ways and identify areas for further improvement;

Procurement of large saloon cars

- the GLTA would continue to observe the guidelines laid down in the Stores and Procurement Regulations (SPR) on the procurement of vehicles; and

- the Administration had examined the Committee's recommendation that the Standing Commission on Civil Service Salaries and Conditions of Service should be involved in the tender process for the purchase of saloon cars for senior civil servants. The Administration considered this recommendation inappropriate because the Commission was primarily responsible for advising on conditions of service but not for executing these conditions per se. Although the use of government cars by senior servants was a condition of service, the procurement of vehicles was an implementation detail which was outside the terms of the Commission. The existing procedures for the Administration to procure vehicles were already stated clearly in the SPR, and accorded fully with the principles of public accountability, value for money, transparency, and open and fair competition. As the tenders had to be vetted and considered by a relevant tender board, sufficient checks and balances were already in place to guard against abuse.

8. With regard to the Committee's concerns about the Administration's approach in collecting users' feedback and the need to specify minimum exterior dimensions, the

Secretary for the Treasury, in her letter of 5 January 2000 in ***Appendix 3***, informed the Committee that:

- the Administration had not conducted any open tender exercise for the procurement of large saloon cars since the last open tenders in September and October 1996;

- the next open tender exercise would be conducted around October 2000. To prepare for that, the GLTA was already conducting market research on the latest trade developments and aimed to finalise the draft tender specifications around mid-2000. Details on the tender assessment criteria for the coming procurement exercise had yet to be drawn up. The Administration would have due regard to the recommendations made by the Committee. For instance, the relative weightings for price and quality would give due regard to economy. The Administration would also distinguish mandatory requirements from desirable features, and continue to observe the guidelines laid down in the SPR in working out the details;

- as and when the specifications and assessment methodology for the coming tender exercise for large saloon cars were fixed, the Administration would revert to the Committee in the first instance through the relevant Government Minute and progress report; and

- the Administration would closely adhere to the value for money principle in the procurement of all government vehicles.

9. The Committee urge the Director of Audit to closely monitor the next tender exercise for the procurement of large saloon cars and make a report to the Committee if necessary.

Laying of the Report The Director of Audit's Report on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 1998 and the Report on the results of value for money audits were laid in the Legislative Council on 18 November 1998. The Committee's subsequent Report (Report No. 31) was tabled on 10 February 1999, thereby meeting the requirement of Rule 72 of the Rules of Procedure of the Legislative Council that the Report be tabled within three months of the Director of Audit's Report being laid.

2. **The Government Minute** The Government Minute in response to the Committee's Report No. 31 was laid in the Legislative Council on 5 May 1999. A progress report on matters outstanding from the Minute was issued on 11 October 1999. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 46 below.

3. **The implementation of policies on the prevention of double housing benefits and the suspension of pensions for retired civil servants in publicly-funded organisations** (3 - 4 of Part III of P.A.C. Report No. 31). The Committee were informed

that:

- the Administration was taking action to finalise the list of publicly-funded organisations which should be subject to the prevention of double housing benefits rules and would ensure implementation through the relevant policy bureaux and the publicly-funded bodies themselves; and

- the Civil Service Bureau (CSB) had completed the review of the existing policy on the suspension of monthly pension for retired civil servants in public-funded organisations, having regard to the original rationale and objectives of the policy. The CSB was evaluating the options on whether to modify the pension suspension policy and the implications.

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

5. **Departmental quarters retained by the Hospital Authority** (5 - 6 of Part III of P.A.C. Report No. 31). The Committee were informed that:

- the Administration would continue to ensure that the quarters managed by the Hospital Authority (HA) were put to optimum use. The HA had identified uses for all the vacant units. Pending conversion to other uses, the HA had arranged to let them out for residential purpose at market rates on a short-term basis;

Utilisation of quarters retained by the HA

- **t**he Working Group chaired by the Health and Welfare Bureau with representatives from the HA, the Government Property Agency (GPA) and the Architectural Services Department had been closely monitoring the utilisation of quarters retained by the HA. Of the 2,721 quarters mentioned in the Audit Report No. 28, the HA had dealt with 235 quarters by:

  (i) transferring 80 quarters at the Prince of Wales Hospital (PWH) and 96 at the Castle Peak Hospital to the GPA;

  (ii) transferring three quarters at West End Path Quarters to the Department of Health;

  (iii) demolishing 16 quarters in the Caritas Medical Centre redevelopment project; and

  (iv) converting 40 quarters at the Princess Margaret Hospital into specialist clinics;

- the HA was now managing the remaining 2,486 quarters. As at the end of September 1999, 1,892 of these units had been put to hospital use and 262 rented out for residential purpose at market rates on a short-term basis. The current position of the remaining 332 vacant units was as follows:

	Number of units
(i) to be put to other hospital/welfare uses during 1999-2000	188
(ii) to be put to other hospital/welfare uses before 2002-03	144

Rental valuation

- since the release of the Audit Report No. 28 in 1997, four rental surveys had been conducted by a private valuation firm, with the GPA providing expert comments on the methodology adopted. In view of the fluctuations of property market, the HA had started to conduct rental surveys twice a year since 1998 to reflect more accurately the rental trend. The most recent half-yearly rental survey conducted in February 1999 showed a continuous downward trend of the property market. The HA had therefore adjusted rental charges downwards by some 0.6% to 24.8% as from 1 July 1999. Since the rental market had shown signs of stabilisation, the HA, in consultation with the GPA, considered that a mid-year rental valuation for 1999 was not necessary;

Block E, PWH

- of the 80 quarters in Block E of the PWH returned by the HA, the GPA had allocated 24 units for welfare uses, three for HA's call rooms, eight for use as government quarters, and the remaining 45 for residential leasing at market rental. The GPA had so far let out 35 of the 45 units;

Use of quarters as welfare premises

- the general policy on the utilisation of government properties was that Government departments would have the first claim. Where the properties were not required for departmental use, they would be offered at market rental for uses which were compatible with the zoning for the location. Where there was no demand for such uses, the properties would be available for allocation to non-government organisations (NGOs);

- the availability of surplus government properties was made known to Government departments periodically. Apart from those identified for government use, the others were subsequently advertised in the local press. The GPA would consider all indications of interests received including those from NGOs. In cases involving allocations to NGOs, it would take into account user requirements and the recommendation of the relevant government bureaux or departments;

- the units in Block E of the PWH were offered by the HA to the Government in

1996, but were not then considered suitable either for use as government quarters or letting out because of the non-availability of parking spaces. In order to put the units to positive use, some allocations to welfare organisations had been made. Following the provision of parking spaces, the remaining bulk had been offered for domestic use, with most of the units being taken up by commercial leases by mid-1999;

- starting in April 1996, the Director of Social Welfare had expressed interest in setting up halfway houses and childcare centres at Block E, PWH. Four to six flats had been earmarked for the Department while detailed plans were under consideration. In July 1999, three units had been allocated to the Social Welfare Department as residential homes for the mentally ill/handicapped;

- towards the end of 1996, the Director of Social Welfare had requested the GPA to provide accommodation at Block E, PWH for Youth Outreach, whose premises at Portland Street were then required for redevelopment by the Land Development Corporation. Youth Outreach had been offered four units at nominal rental in February 1997. Subsequently, this requirement was reduced to three units;

- in October 1997, the Director of Social Welfare had requested the GPA to reprovision Harmony House, whose premises at Tudor Court, Broadcast Drive, had been required by government for land disposal. After exhausting rounds of site search, the GPA agreed to allocate four units at Block E, PWH at nominal rental;

- in January 1997, the Director of Social Welfare supported a commercial initiative in making use of vacant quarters in hospital premises for residential care homes for the elderly. With support from the Business and Services Promotion Unit, Block E at PWH had been identified as the pilot project. The 14 unites allocated to the project were let by open tender to a private operator;

Use of quarters as storerooms

- the number of quarters used as storerooms had dropped from 201 as at the end of August 1996 to 124 in September 1999. The HA would continue to explore ways to minimise stockholding requirements to ensure the optimal use of storage space; and

Fire service installations in quarters-converted offices

- the HA had carried out fire service installation works in the quarters-converted offices at four hospitals and would continue its work to upgrade fire prevention facilities in other quarters-converted offices, subject to the availability of funds. The Working Group would continue to closely monitor the progress of these works to minimise the risk of fire in these quarters-converted offices.

6. The Committee noted the measures taken by the Administration to address the issues raised by the Committee on the subject.

7. **Beneficial use of construction waste for reclamation** (13 - 14 of Part III of P.A.C. Report No. 31). The Committee were informed that:

- in the first half of 1999, the construction industry had produced 12% more construction and demolition (C&D) material compared with the same period last year. The Administration had diverted about 2.8 million cubic metres or 77.9% of all C&D material for reclamation which was comparable to the 78.5% achieved in 1998;

- the Administration had re-examined all public works projects to identify opportunities to increase use of C&D material. Two projects, viz. the Tung Chung Development Phase 3A project and Tseung Kwan O Area 137 Stage 2 Reclamation, had been identified to provide additional disposal capacity of more than 4 million cubic metres of C&D material;

- by end-1999, the Administration would provide two temporary barging points operating at Sai Ying Pun and Quarry Bay. In October 1999, the Secretary for the Treasury had approved funds to establish another temporary barging point at Tuen Mun Area 38;

- as for the provision of long-term barging points in Eastern, Central and Western, and Southern districts, the traffic and environmental impact assessment studies had been completed. To reduce the amount of mixed C&D waste disposed at landfills, construction of a temporary C&D material sorting facility in Tseung Kwan O had started in October 1999. Another sorting facility in Chai Wan had been included as a Category B project of the Public Works Programme. The Administration was also considering to establish another long-term barging point and sorting facility in Kwai Chung. The traffic and environmental impact assessment study was planned to be started by end-1999;

- the Administration would continue to explore ways to reduce further the quantity of C&D material produced. The Administration was preparing guidelines to promote reduction, reuse and recycling of C&D material in government construction works. The Administration was also reviewing the current specifications to facilitate the wider use of recycled C&D material. The Administration would prohibit the use of timber for site hoardings in public works contracts starting from 2000; and

- the Administration had deferred the introduction of the landfill charging scheme until 2000. The Administration would also consider how to improve the management of disposal of C&D material and to require C&D material producers to pay the landfill charges directly through an account billing system.

8. The Committee wish to be kept informed of the progress of the various measures to promote reduction, reuse and recycling of C&D material.

9. **Part I: Inspections of places of public assembly by the regional offices and Part II: Revision of fees and charges** (5 - 6 of Part IV of P.A.C. Report No. 31). The Committee were informed that the Buildings Department (BD) had updated the costing for its services in the restaurant licensing process to 1999-2000 prices. The Director of Urban Services and the Director of Regional Services were studying the revised costing and would consult the appropriate charging authorities. (Note: the Director of Food and Environmental Hygiene has taken over the responsibility of the Director of Urban Services and the Director of Regional Services with effect from 1 January 2000.)

10. The Committee wish to be kept informed of the progress of the introduction of a charging system for recovering the cost of the services provided by the BD under the three-tier system for restaurant licensing by the appropriate charging authorities.

11. **Adjudication fee for purposes of the Stamp Duty Ordinance** (9 - 10 of Part IV of P.A.C. Report No. 31). The Committee noted that the Administration had introduced into the Legislative Council the Stamp Duty (Amendment) Bill 1999 for amending the Stamp Duty Ordinance so as to implement the charging proposal for adjudication services.

12. **Chemical Waste Treatment Centre** (13 - 14 of Part IV of P.A.C. Report No. 31). The Committee noted that:

- the Administration was negotiating with the operator of the Chemical Waste Treatment Centre on areas identified in the review, including the terms of the current contract and the implementation of efficiency measures. The Administration would seek the advice of the Executive Council on the outcome of the negotiation which was expected to be available later in 1999; and

- the subject was being followed up by the Legislative Council Panels on Environmental Affairs and Health Services.

13. The Committee wish to be kept informed of the progress on the subject.

14. **The provision of government wholesale food markets** (17 - 18 of Part IV of P.A.C. Report No. 31). The Committee were informed that:

- the traders and the market users in general objected strongly to the initial design of the Cheung Sha Wan Wholesale Food Market Complex (CSWWMC) Phase II project. The Architectural Services Department (ASD) had subsequently revised the layout and design of the market complex. However, the users and traders were still concerned about the feasibility of their operation in a multi-storey market structure, the possible traffic problems within the market complex and the future rental charges. The ASD was considering the possibility of further revising the layout and design of the market complex. Meanwhile, work on the environmental impact assessment study and the traffic impact assessment study was in progress. The

Agriculture and Fisheries Department (AFD) and the ASD were continuing their dialogue with the traders and the market users with a view to reaching an agreement on the project design;

- the Administration had issued quarterly progress reports to the Legislative Council Panel on Economic Services in March 1999 and June 1999 to keep Members informed of the development;

- despite repeated efforts, the 12 trade offices at the CSWWMC Phase I and the bank area at the Western Wholesale Food Market (WWFM) remained vacant. The AFD would rent out the canteen area at the WWFM after converting it into fruit/vegetable wholesale stalls; and
- the Planning Department was actively pursuing the proposal to identify a new site for reprovisioning the WWFM in the context of reviewing the land uses of the Western District and the Green Island Development.

15. The Committee wish to be kept informed of:

- the progress of the development of Phase II of the Cheung Sha Wan Wholesale Food Market project;

- the improvement in the utilisation of trade offices and ancillary facilities in the existing wholesale food market complexes; and

- the progress of exploring the possibility of maximising the utilisation of the WWFM site.

16. The Committee suggest that the Director of Audit should conduct a review of the town planning process for the entire Cheung Sha Wan district and make a report to the Committee if necessary.

17. **Departmental quarters for the disciplined services** (19 - 20 of Part IV of P.A.C. Report No. 31). The Committee were informed that:

- the number of leased quarters retained by the Police Force had further decreased from 47 to 41, comprising 31 quarters for the officer grade and 10 for the junior police officer grade;

- the Government Property Agency (GPA) had conducted a review of the relevant sections in the Accommodation Regulations concerning the eligibility criteria for and the classification of department quarters (DQs), and was examining the review results in consultation with relevant parties within the Government, having regard to other related issues on DQs; and

- the GPA was finalising the review of the grading of DQs.

18. The Committee wish to be kept informed of further progress on the subject.

19. **Home financing and use of senior staff quarters in UGC-funded institutions** (23 - 24 of Part IV of P.A.C. Report No. 31). The Committee were informed that:

- the Government and the UGC had agreed to adopt a flexible and positive approach to consider proposals for putting to optimal use quarters that were surplus to requirements as a result of the implementation of the UGC Home Financing Scheme, while at the same time seeking to safeguard the proper use of public funds;

- the Secretary-General, UGC had set up a Task Force on Usage of UGC-funded Institutions' Surplus Staff Quarters (Task Force). The chairman of the Task Force was the Secretary-General, UGC. Other members of the Task Force were:

  (i) a representative from each of the eight UGC-funded institutions;

  (ii) a representative from the Education and Manpower Bureau;

  (iii) a representative from the Finance Bureau;

  (iv) a representative from the Lands Department; and

  (v) Assistant Secretary-General, UGC.

  Representatives from relevant departments were invited to attend the Task Force meetings on a need basis. The terms of reference of the Task Force were:

  (i) to establish a mechanism to oversee the progress with regard to the numbers, status and disposal of surplus quarters;

  (ii) to receive and consider proposals from individual institutions and from the Government for disposal of surplus quarters;

  (iii) to make recommendations to the institutions and the Government, where appropriate, on ways and means to effectively dispose of surplus quarters, with a view to achieving the greatest public benefits; and

  (iv) to assess the financial implications of the proposals, including the implications on Government's share of the proceeds from vacated quarters under the agreed arrangements;

- as chairman of the Task Force, the Secretary-General, UGC's role was to consider and advise on proposals from institutions on disposal plans or alternative uses of the quarters and the consequential implications on the Government's share of the proceeds from the vacated quarters;

- as at 30 November 1999, there were 468 vacant quarters in the UGC-funded institutions. The disposal proposals or alternative uses of the quarters submitted by the institutions were being considered by the Task Force. The breakdown of these disposal proposals and the respective number of quarters involved were as follows:

	Hong Kong Baptist University	Chinese University of Hong Kong	Hong Kong Polytechnic University	University of Hong Kong	Total
To return the quarters to the Government	45	-	118	100	263
To convert the quarters into student residence	-	94	-	-	94
To convert the quarters into non-domestic facilities	-	14	-	-	14
	45	108	118	100	371

- the UGC-funded institutions were implementing various measures to optimise the use of the remaining 97 (i.e. 468 - 371) vacant quarters. For instance, some institutions had obtained temporary waivers to convert some quarters into rentable premises for their staff (particularly those staff receiving Home Financing Allowance or Private Tenancy Allowance for rental), and even outsiders.

20. The Committee noted the actions taken by the Administration to address the issues raised by the Committee on the subject.

21. **Monitoring of charities: fund-raising and tax allowances** (25 - 26 of Part IV of P.A.C. Report No. 31). The Committee were informed that:

- the bill for amending the Summary Offences Ordinance (Cap. 228) to give statutory effect to an expanded scheme of control on fund-raising activities was scheduled for introduction into the Legislative Council in 1999-2000;

- the Social Welfare Department (SWD) had issued the guidance note on internal financial controls to about 3,000 charitable organisations exempt from tax under section 88 of the Inland Revenue Ordinance;

- the SWD was planning to use the Electronic Service Delivery (ESD) Scheme to facilitate public access to information and services provided by the SWD on the monitoring of charitable fund-raising activities when the ESD Scheme is launched in late 2000; and

- the Hong Kong Society of Accountants had issued to its auditor members a practice note on auditing flag-day accounts.

22. The Committee wish to be kept informed of further progress of the legislative amendments.

23. **The monitoring and control of air pollution** (27 - 28 of Part IV of P.A.C. Report No. 31). The Committee were informed that:

Air quality objectives

- the Working Group on the Health Effects of Air Pollution, comprising representatives from relevant medical professional bodies, concluded at the end of 1998 that tightening the Air Quality Objectives (AQOs) should help to achieve greater protection of public health. The Administration was working to propose a revised set of AQOs in 1999, taking into account the views of the Working Group. In parallel, the Administration would devise appropriate measures to achieve and maintain the new set of AQOs;

- since 1 July 1999, the Administration had further tightened the vehicle emission standards such that all newly registered light duty diesel vehicles were required to comply with the latest European emission standards. The Administration had also introduced an emission standard for newly registered petrol vehicles to control emissions from evaporative loss. A set of emission standards for newly registered motor cycles and motor tricycles had been implemented since 1 October 1999;

- the Environmental Protection Department (EPD) had commissioned a consultancy study on air pollution problems in the Pearl River Delta Region in September 1999. The study would be completed in early 2001;

Monitoring of air quality

- the EPD had commissioned a new air quality monitoring station in Tung Chung in May 1999;

Air Pollution Index

- the EPD had extended the Air Pollution Index (API) and forecast system to all Sundays and public holidays since July 1999. In addition, the system had also been enhanced to report API on an hourly basis;

Cleaner vehicle diesel

- with the support of the Customs and Excise Department, the EPD had been monitoring closely the environmental impact of vehicle diesel with high sulphur content. The Administration, in co-operation with the Guangdong

Authority, would study the feasibility of adopting common standards for diesel fuels in both Guangdong and Hong Kong and would draw up an implementation plan;

Reducing reliance on vehicle diesel

- the Administration was working to enable all new taxis to operate on Liquefied Petroleum Gas (LPG) from the end of 2000. To strengthen the LPG filling support for LPG taxis, the Administration was seeking to set up some dedicated LPG filling stations in conjunction with the private sector. Four locations in the urban area and one in the Northeast New Territories which could be developed into dedicated LPG filling stations had been identified. These sites, together with those existing petrol filling stations which could be retrofitted with LPG refilling facilities, would be able to meet the demand of the LPG taxis;

Vehicle emission inspection and maintenance programme

- the Transport Department (TD) required all commercial vehicles to undertake annual vehicle examination which included a smoke test. In the past two years, the TD had checked the engine speed and air filter of the commercial vehicles by random sampling to deter tampering of the engine. The Administration would consider expanding these additional checks to cover more commercial vehicles subject to availability of resources;

- the Road Traffic (Construction and Maintenance of Vehicles) (Amendment) Regulation 1999 had come into force on 27 February 1999. It facilitated the use of new models of smoke measuring apparatus by enforcement agencies including the Police. The Police had been using portable smoke measuring apparatus for their enforcement against smoky vehicles since March 1999; and

- the Administration was preparing a proposal to increase the fixed penalty fine on smoky vehicles with a view to introducing the empowering legislation in the 1999-2000 legislative session.

24. The Committee wish to be kept informed of the development and outcome of the measures being implemented by the Administration.

25. **The grant of hotel concessions by the Building Authority** (37 - 38 of Part IV of P.A.C. Report No. 31). The Committee were informed that the Planning, Environment and Lands Bureau (PELB) (i.e. the Planning and Lands Bureau after 1 January 2000) had completed a review of the policy on granting building concessions to hotel developments and concluded that such a policy was still required to encourage new hotel developments and promote tourism. To implement the result of the review, the PELB was drafting legislative amendments to formalise the practice of granting hotel concessions.

26. The Committee wish to be kept informed of the progress of the legislative amendments.

27. **Urban Council public markets** (39 - 40 of Part IV of P.A.C. Report No. 31). The Committee were informed that the Administration had granted temporary land allocation to the Director of Urban Services (i.e. the Director of Food and Environmental Hygiene after 1 January 2000) for the Central Market to continue operation subject to six months' notice of termination. The Secretary for Planning, Environment and Lands (i.e. the Secretary for Planning and Lands after 1 January 2000) would consider the timing for the sale of the Central Market site and would give prior notice to the Director of Urban Services before taking back the site. Meanwhile, the Urban Services Department (i.e. the Food and Environmental Hygiene Department after 1 January 2000) was working with the Lands Department on the proposed market facility at the Hollywood Road site for reprovisioning the Central Market.

28. The Committee wish to be kept informed of further progress of the disposal of the Central Market site.

29. **Relocation of the General Post Office** (Chapter 1 of Part VII of P.A.C. Report No. 31). The Committee were informed that:

- the Administration was making arrangements to relocate the General Post Office (GPO) headquarters and the Sorting Centre to a site in Chai Wan; the Delivery Office to government or commercial premises in Central; and the Counter and Post Office Box Sections to a future development on the Central Market site at Jubilee Street. On the basis of progress to date, 2005 remained the earliest possible target for completing the reprovisioning exercise;

- according to the latest Amendment Plan to the Draft Central District (Extension) Outline Zoning Plan, the GPO site would be within a "Comprehensive Development Area", a large part of which had yet to be reclaimed. Taking into account the time required for completing the zoning processes and related reclamation works involved, it was expected that the earliest disposal date for the GPO site would be in 2006. The Administration would be monitoring developments to better synchronise the GPO reprovisioning programme with the site disposal programme as appropriate; and

- as regards overall redevelopment, the Central Market site would be for commercial development with some Government/Institution/Community (GIC) uses. Details of the GIC uses to be accommodated at the site had yet to be finalised. The timing of the disposal of the site would be determined taking into account factors such as availability of the site for disposal and market demand.

30. The Committee wish to be kept informed of further development on the subject.

31. **Recoverability of the outstanding advances to the UNHCR** (Chapter 2 of Part

VII of P.A.C. Report No. 31). The Committee were informed that:

- regarding the advance account arrangement, the Administration agreed to:

  (i) inform the Finance Committee in a timely manner the nature and amount of any advance account exceeding the limit of delegated authority under the General Revenue Account (currently $10 million) which was "extraordinary"; and

  (ii) separately disclose the amounts of such and other material advance accounts in the annual accounts of the Government of the Hong Kong Special Administrative Region with explanation, where appropriate.

  As a guiding principle, the Administration would regard as "extraordinary" those items which were not expected to recur frequently or on a regular basis;

- as at 31 August 1999, there were 990 Vietnamese refugees (VRs), 586 Vietnamese migrants (VMs) and 486 Vietnamese illegal immigrants (VIIs) in Hong Kong. The Administration would continue to repatriate VMs and VIIs and liaise with the UNHCR to seek resettlement opportunities for VRs in other countries;

- as at 31 August 1999, the amount of outstanding advances stood at $1,162 million (same as that at 31 August 1998). The Administration had been pressing the UNHCR to repay the outstanding advances and requesting assistance from the Central People's Government and the British Government in resolving the remaining problems. Recent examples of these efforts include:

  (i) when the Regional Representative of UNHCR visited Hong Kong in July 1999, the Secretary for Security asked the UNHCR to make renewed efforts to raise funds from the international community in order to repay the outstanding advances. The Security Bureau had written again in December 1999 to the UNHCR sub-office in Hong Kong to remind them of the outstanding advances;

  (ii) the Hong Kong Special Administrative Region (HKSAR) Government made direct appeals to the international community at the 50th session of the UNHCR Executive Committee meeting in Geneva in October 1999 as well as the fourth meeting of the Inter-Governmental Asia-Pacific Consultations on Refugees, Displaced Persons and Migrants in Nepal in June 1999;

  (iii) at the meetings of the Joint Liaison Group, assistance had been sought from the British side to resolve the Vietnamese boatpeople problem including the outstanding advances; and

  (iv) appeals had been made to individual donor countries through contacts between top officials of HKSAR Government and those countries,

including the United Kingdom;

- the UNHCR had not departed from the position they took during the Public Accounts Committee's meeting held on 8 December 1998, i.e. that reimbursement to Hong Kong had always been subject to availability of funds; the UNHCR had been experiencing extreme difficulty in keeping donors interested in providing further financial support for its programmes in Hong Kong; the UNHCR had been confronted with massive refugee and humanitarian problems around the world and had been unable to raise funds for all of its programmes; therefore, realistically they did not foresee any funding earmarked for Hong Kong;

- as regards the British Government, they had indicated that they would continue to render assistance to Hong Kong in resolving the remaining problem as far as possible. In this respect they had accepted a total of 129 VRs for resettlement since the handover, which was more than any other country. Regarding financial contributions, their position was that they would continue to provide aid to poor areas in Vietnam, thereby reducing the number of Vietnamese who would leave their country for Hong Kong;

- in respect of direct appeals to the international community and individual donor countries, no favourable responses had been received so far; and

- the Administration's assessment was that full recovery of the amount due, or partial recovery within the next 12 months was doubtful. Nevertheless, the Administration would continue with efforts to look for repayment, including pressing the UNHCR for early settlement and making direct appeals to donor countries.

32. The Committee wish to be kept informed of the results of the action taken by the Administration, with the assistance of the Central People's Government and the British Government, in:

- pressing the UNHCR to fully repay the outstanding amounts to the HKSAR Government as soon as possible; and

- appealing to the international community to make donations to the UNHCR earmarked for reimbursing the HKSAR Government for the outstanding amounts.

33. **The refuse collection service of the Regional Services Department** (Chapter 3 of Part VII of P.A.C. Report No. 31). The Committee were informed that:

- subsequent to the achievement of the productivity gain in September 1998 through the redeployment of refuse collection staff, the Regional Services Department (RSD) (i.e. the Food and Environmental Hygiene Department after 1 January 2000) continued to monitor the performance and productivity of the refuse collection teams (RCTs);

- the RSD was satisfied with the measures designed for strengthening the control of the refuse collection operation. It would continue to conduct both "vertical" and "horizontal" quality auditing to enhance the productivity of the RCTs;

- the RSD had completed the trial of the "FLEX Fleet Monitoring System" which recorded the actual operation time of the RCTs, vehicle travelling speed and idle time. The trial had demonstrated that the system was useful in monitoring the performance of the RCTs. The RSD planned to install the system on all refuse collection vehicles;

- the RSD had maintained close contact with the Government Land Transport Agency to plan ahead transfer of surplus drivers when more refuse collection services were contracted out. Assistance from the Secretary for the Civil Service had also been sought by the RSD to identify staff redeployment opportunities; and

- with the contracting out of the refuse collection service for the Tsuen Wan District from May 2000, the RSD expected that the percentage of contracting out would rise to 36%. It would reach 50% by the end of 2001 when the refuse collection service for the Kwai Tsing District was contracted out. The RSD was reviewing whether the maximum percentage of contracting out could be increased beyond 50% and the result was expected to be available later this year.

34. The Committee wish to be kept informed of the progress of the contracting out of the refuse collection service.

35. **Footbridge connections between five commercial buildings in the Central District** (Chapter 4 of Part VII of P.A.C. Report No. 31). The Committee were informed that:

- as part of the Administration's on-going efforts in securing Footbridge A connecting Building I and Building II, the Administration had suggested building designs for Footbridge A to the owners of Building I for their consideration and had held discussions with them. The owners were considering the feasibility of these options and the technicalities involved;

- in parallel, the Administration was exploring with the Mass Transit Railway Corporation (MTRC) the feasibility of an underground pedestrian walkway network which might help improve pedestrian flow along Queen's Road Central. The MTRC had completed the pre-feasibility study of the concept, and the Administration was examining the study findings;

- on Footbridges B and C, the owner of Building III was obliged under the modification letters to complete construction of the two footbridges within 18 months from the date of issuance of the full occupation permit for Building III. The latter was issued on 23 June 1999 and the footbridges were expected to be

in place by 2001. Construction works for Footbridge C had commenced on 26 July 1999. As regards Footbridge B, building plans had been approved. Under the modification letters for Building II, the owner thereof was obliged to provide the necessary structural support for receiving Footbridge B to the building. The Buildings Department would closely monitor the progress of these two footbridges;

- the Administration had carefully considered the need for incorporating pedestrian footbridges shown in Outline Development Plans into the relevant Outline Zoning Plans (OZPs). According to legal advice, the purpose of OZPs was to set out the permitted land uses under the respective zonings of the respective areas in the plans rather than individual facilities at specific locations. Incorporating individual facilities in the OZPs would not impose a statutory requirement for or ensure the construction of such facilities. The Administration therefore considered it ineffective. The Administration would nevertheless continue to make use of contractual instruments such as Conditions of Sale/Exchange or Deeds of Variation to ensure the provision of the relevant facilities/footbridges as appropriate. The latter were legal documents which could set out the detailed requirements such as the design and location for the relevant facilities and were binding on the land owners concerned; and

- on the promulgation of a new set of guidelines in the Practice Notes for building professionals to determine appropriate bonus building concessions, the Buildings Department had prepared the draft guidelines and was consulting the building professions.

36. The Committee wish to be kept informed of the progress of:

- the Administration's negotiation with the owners of the Building I site for the provision of Footbridge A;

- the feasibility study on the proposed underground pedestrian network along Queen's Road Central;

- the construction of Footbridges B and C; and

- the promulgation of a new set of guidelines in the revised Practice Notes for building professionals to determine appropriate bonus building concessions.

37. **Management of electricity consumption by the Government** (Chapter 5 of Part VII of P.A.C. Report No. 31). The Committee were informed that:

- the Electrical and Mechanical Services Department (EMSD) had been actively monitoring new development of potential energy efficient equipment. It had established an Internet web page on "Energy Efficiency". New guidelines on the use of energy efficient electronic ballasts and variable speed drives had

been promulgated through the Internet in June 1999. A two-year programme had been started in June 1999 to examine the feasibility of using innovative energy efficient equipment including occupant detection sensors and controls, dimmable electronic ballasts and high energy efficiency fluorescent tube in public buildings. The EMSD intended to share with the public the experience gained at the end of the programme;

- the EMSD had set up a Task Force on Energy Performance Contracting since July 1999 with members from professionals, experienced local organisations and energy services companies. The EMSD intended to select five government buildings for pilot projects by energy services companies with a view to making recommendations in 2000 in the light of experience gained;

- by the end of September 1999, the EMSD had completed preliminary energy audit reports on 17 of the 19 scheduled public buildings. It planned to complete the final audit reports for all the 19 buildings by the end of 1999. The EMSD had issued revised Guidelines on Energy Audit to departments to encourage energy self-auditing for smaller buildings. It would establish an independent energy audit team in 2000 to enhance and expand the existing energy audit programmes;

- in June 1999, the Water Supplies Department (WSD) had completed preliminary energy audits on 12 major waterworks installations that accounted for 70% of the department's energy cost. After assessing their energy consumption patterns, the WSD set priorities for carrying out more detailed energy audits on these installations between July 1999 and the end of 2002. The energy audit on the WSD's Lung Cheung Road Workshop was expected to be completed by October 1999. The WSD was considering plans for auditing its other office buildings. From January to September 1999, the WSD conducted 172 efficiency tests on pumpsets in WSD installations. The majority of the maintenance schedules were found to be adequate with only 25 requiring adjustment. The WSD had identified 40 aged installations. It had completed rehabilitation or replacement works at four of these installations and was carrying out similar works at another 13. It was planning such works for the remaining 23 aged installations;
- the Police Force had replaced all the high pressure sodium 100W lamps with 50W lamps at the main lobby of Arsenal House Phase II and reprogrammed the control times for lifts of Arsenal House Phase I & II to match the level of service with demand. In June 1999, the EMSD had started another round of audits to further examine proposals on retrofitting existing lighting ballasts and the air-conditioning system for Arsenal House Phase I & II. Recommendations on the next phase of action were expected to be available by the end of 1999;

- despite the age of the building, the energy index of Caine House was lower than other government buildings. In the circumstance, further audits on Caine House would not be required. To reflect its commitment to improve the energy efficiency of its facilities, the Police Force had, since August 1999, upgraded its existing Green Manager Working Group to a Steering Committee

on Green Management chaired by its Director of Finance, Administration and Planning; and

- the EMSD had replaced all the less energy efficient T12 fluorescent tubes with T8 tubes except for those luminaries with special control gear that specifically required T12 tubes for proper operation.

38. The Committee wish to be kept informed of further development on the subject.

39. **Information technology projects, staff productivity and central registration of documents** (Chapter 6 of Part VII of P.A.C. Report No. 31). The Committee were informed that:

- there were currently 600 permanent staff and 37 contract/temporary staff in the Land Registry. The number of staff had been stabilised since March 1999 in view of the current property market condition and in order to ensure speedy and accurate registration of land documents in the event of a sudden increase of workload;

- the average staff output of the Land Registry in the first and second quarters of 1999 was 16.9 and 18.5 deeds registered per man-day respectively. This was higher than the productivity standard of 15 deeds registered per man-day adopted by the Land Registrar;

- the contract for an information systems strategy study (ISSS) on the strategic change plan of the Land Registry had been awarded in May 1999. The consultants had already commenced the study and would report in October 1999 with recommendations for a more cost-effective and efficient information technology infrastructure for land registration and retrieval system, including the feasibility of outsourcing the information technology services. The Land Registrar would continue to monitor the implementation progress of the central registration system targeted for late 2001;

- the Land Registrar would develop productivity standards on a whole-of-the-Land Registry basis when the strategic change plan of the Land Registry was implemented; and

- the post-implementation review of the Document Imaging System was being carried out and would be completed before the end of 1999.

40. The Committee wish to be kept informed of further progress of the Land Registrar's actions on the subject.

41. **Canteens in government premises** (Chapter 7 of Part VII of P.A.C. Report No. 31). The Committee were informed that:

Provision of canteens in government premises

- the Government Property Agency (GPA) had completed a review on the provision of canteens in government premises. The exercise covered 118 canteens, nine of which were located in joint-user buildings and 109 under the control of 17 departments;

- it was a general policy that canteen should only be provided in government buildings on an exceptional basis in the light of the operational requirements. In assessing the continued need for existing canteens, the GPA had adopted the following criteria:

  (i) there must be a clear obligation for the Government to facilitate the supply of meals which could not be provided otherwise; and

  (ii) meals or refreshment could only be supplied through the provision of canteens, i.e. alternative methods of provision were unavailable or impracticable;

- based on the above criteria, the GPA had closed four of the nine canteens in joint-user buildings and converted the space vacated for general office use. Four more canteens would be closed upon the expiry of their current contracts in 2000-01. The GPA was considering the continued need of the remaining canteen;

- of the 109 canteens managed by departments, the GPA considered that 82 satisfied the above criteria for continued provision. These canteens were situated inside correctional institutions or police stations, or in isolated areas. The remaining 27 canteens would be closed upon expiry of their current contracts. The GPA would work with departments concerned to see how best to put the space released to more productive alternative uses;

- the GPA would vigorously apply the laid down policy and new criteria on government canteens in vetting requirements in new government projects;

Charges for operation of canteens in government premises

- the GPA would include in future tenders and contracts for the operation of canteens the recovery of all costs incurred by the Government. For canteens which did not attract valid tenders, the GPA would levy on the chosen operators a fee to cover all administrative costs incurred in managing the canteens contracts;

- the GPA had examined the background and policy issues relating to the provision of messes for the disciplined services. The initial finding was that messes and canteens served different purposes and should be considered separately. The Security Bureau was now consulting the disciplined services on a review of the mess policy. Upon completion of this exercise, the GPA would discuss with the relevant departments the extent to which mess operators should be asked to cover rent and utilities charges;

Management of canteens in government premises

- the GPA would, in consultation with the Heads of Department and the Building Management Committees, consider the development of a management information system to monitor the essential operating conditions of government canteens; and

Allocation of space for use by police officers

- the working group set up by the Commissioner of Police to study the provision of recreational space had completed its study on the provision of recreational space in police stations and compiled a report which had been submitted to the police management for consideration in September 1999. The Police was considering the working group's recommendations on how to improve the utilisation of recreational (including canteens and messes) space within its premises.

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

43. **Industrial safety and health** (Chapter 8 of Part VII of P.A.C. Report No. 31). The Committee were informed that:

Actions to ensure rectification of irregularities

- the Labour Department (LD) had recently installed a computer software at each of the district offices under its Occupational Safety and Health Branch to capture data of industrial establishments issued with warnings. Every two months, the software generated by random a list of about 10% of such establishments for follow-up inspections and prosecution as appropriate. The 10% target was set having regard to the existing workload and available manpower resources. The revised system would enhance the deterrent effect of warnings issued to the establishments;

Safety management system

- the Factories and Industrial Undertakings (Amendment) Ordinance 1999 had been enacted in July 1999. It introduced mandatory safety training for employees in the construction and container handling industries, and empowered the Commissioner for Labour to make new regulations on safety management. The draft regulation on safety management would be introduced into the Legislative Council near the end of 1999. The LD would closely monitor the effectiveness of safety management after the new regulation was brought into force. In the meantime, the LD would continue to encourage duty holders to implement some form of safety management in their establishments;

Codes of Practice

- the LD had issued the Codes of Practice (COP) on "Safe Use of Suspended Working Platform" in March 1999 and would issue one on "Land-based Construction over Water" near the end of 1999. Furthermore, the LD aimed to publish the COP on "Working in Confined Space" in January 2000. The draft version had been sent to the relevant industry bodies and safety professional organisations for comments. In addition to the COPs, the LD had, up to July 1999, issued 23 new leaflets, posters and newsletters on various occupational safety and health subjects;

Management information

- with the support of the Information Technology Services Department, a feasibility study on the development of a comprehensive Management Information System for occupational safety and health had been carried out since mid-1999. In the interim, the LD had enhanced its management data system, accident analysis capability and internal communication network to support strategic planning and management decisions;

Enhancement of enforcement action against recalcitrant offenders

- to enhance enforcement action against recalcitrant offenders, the LD had implemented a revised enforcement strategy. Immediate prosecution would be taken upon discovery of unguarded dangerous parts of plant or machinery which were likely to cause serious bodily injuries. Since the use of suspension notices was found to be an effective tool in removing imminent risks likely to cause serious injuries to employees at the workplace, the LD expected that it would issue more of these notices where the situation so warranted;

Notification of newly established industrial undertakings

- in addition to publicising the need for newly established industrial undertakings to notify the LD, the Administration proposed to amend the Factories and Industrial Undertakings Ordinance by extending the time bar for prosecution so that legal action could be taken against those who failed to meet the notification requirement. The Administration would consult the Labour Advisory Board's Committee on Occupational Safety and Health on the proposal, and planned to introduce the legislative changes into the Legislative Council in early 2000;

Revised inspection system

- with a view to utilising its manpower resources more effectively, the LD had compiled a list of poor safety performers for close monitoring. A total of 50 establishments which had the highest accident figures, poor accident rate and unsatisfactory safety performance were selected from the list. The safety

performance of these establishments was subject to regular review and close surveillance;

- the LD considered that more resources should be redeployed to tackle the construction industry which had a consistently poor safety record. By October 1999, about 46% of the total field occupational safety officers had been deployed to implement the revised inspection system in this industry; and

Regulatory action against government contractors

- since the promulgation of the Works Bureau Technical Circular No. 3/99 in March 1999, the procedures for convening Panels of Enquiry against contractors incurring serious incidents on sites had been streamlined. Regulatory actions were now taken against government contractors irrespective of whether the serious incident and/or the site-safety related convictions occurred on a government or a private site. In the six months up to the end of September 1999, a total of 17 Panels had been held, 14 of which involved serious incidents and three were on site safety related convictions.

44. The Committee wish to be kept informed of the progress made, particularly on:

- the results of actions to ensure rectification of irregularities and enhancement of enforcement action against recalcitrant offenders;

- the effectiveness of the safety management system after the new regulation has been brought into force; and

- the legislative amendment to extend the time bar for prosecution against newly established industrial undertakings which fail to meet the notification requirement.

45. **Monitoring of outdoor staff** (Chapter 9 of Part VII of P.A.C. Report No. 31). The Committee were informed that:

General

- the Secretary for the Civil Service had issued guidelines on the supervision of outdoor work to help departments strengthen their supervision of outdoor staff. The guidelines had given due regard to the findings of the Audit Commission and the reviews by various Heads of Department on their existing systems of supervising outdoor staff;

- the Secretary for the Civil Service was reviewing the existing disciplinary procedures with a view to streamlining them. He was also preparing to set up an independent secretariat to process disciplinary cases in the next financial year;

Meter Readers II (MR IIs) of the WSD

- the WSD had completed its disciplinary inquiry on the seven MR IIs and was considering the advice of the Public Service Commission on the punishment to be imposed;

- the Director of Water Supplies had abolished in the Meter Readers' routine schedule the contingency buffer to cater for contingencies such as bad weather and traffic congestion but maintained the grant of rest breaks for operational reasons. The aggregate allowance for rest and personal needs had been revised to 40 minutes per day. The net working time was 440 minutes per day excluding 60 minutes for lunch and an aggregate rest period of 40 minutes;

- the surplus MR IIs had been redeployed since March 1999 to provide service of taking final readings for consumers who gave up consumership and to act as leave relief. With this arrangement, the WSD was able to take 17,000 additional final readings during the period from March to July 1999. The net surplus of MR IIs had been reduced from 13 to nine as three officers had been transferred to other grades in February 1999 and one had left the civil service in mid-May 1999;

- the WSD had conducted a benchmarking exercise in June 1999 with a view to identifying areas for continuous improvement in meter reading operations and productivity. The performance of meter reading operations of the Hong Kong Electric and the China Light & Power had been used for comparison. The areas selected for benchmarking included organisation and staffing, job content, workload, systems and work practices, factors which had implications on productivity, such as meter-site condition and working processes, and performance indicators;

- the findings revealed that there were inherent differences in the working environment, billing practice, route management system, meter positions, meter conditions and the organisation of the meter reading sections. The WSD considered that benchmarking the performance and efficiency purely on the basis of the average output per staff could give misleading results. After taking all factors into consideration, the WSD considered that the performance of its meter readers was generally comparable to their counterparts in the power companies;

- to improve productivity, the WSD had identified a number of areas for further study. These included better positioning the meters, improving the dial size and meter design, improving transportation facilities, enhancing the electronic meter reading system, upgrading the billing system and acquiring new office equipment to enhance efficiency;

- the WSD was examining the feasibility and benefits of contracting out meter-reading work;

Field Officers of the Census and Statistics Department (C&SD)

- as the re-verification result did not indicate that the field officers had not made contacts with the respondents, no disciplinary action would be taken against the 11 officers mentioned in the Audit Report. Although there was insufficient ground to investigate further, advisory letters had been issued to two officers on their unsatisfactory performance and to another two officers reminding them to observe discipline;

- the progress of implementation and the effectiveness of various productivity improvement measures were as follows:

  (i) through better scheduling of pre- and post-survey work and re-scheduling of working hours, the time spent on field visits by field officers and their output rate had both increased;

  (ii) field resources within operational Branches had been arranged according to the geographical locations of the job assignments. This resulted in productivity gains through reduced travelling time and more expeditious data collection for certain sub-annual surveys;

  (iii) the C&SD staff had paid courtesy visits to the senior management of selected large establishments with a view to collecting their views on the C&SD services including the one-stop approach. These visits had helped establish better rapport and relationship between the C&SD and those establishments visited; and

  (iv) the C&SD had set up two field centres, one in its Headquarters and the other at an existing sub-office, as temporary stop-over points for field officers in survey-related work. These centres provided convenient facilities to field officers to carry out their duties;

- while the effects of the above measures would take more time to be fully realised, the C&SD considered that the experience so far had been satisfactory;

- the C&SD had examined the costs of field enumeration work and carefully considered the option of contracting out some data collection work. A field enumeration work costing exercise had been conducted and the average cost for enumerating a case ranges rather widely in different surveys, depending on the complexity of the questionnaires;

- the C&SD considered that:

  (i) since the C&SD had contract-out arrangement only for the omnibus household survey on social topics, readily available cost comparison could only be made to the actual cost of this survey. While the

contract-out cost was lower in this survey, it might not reflect the contract price in the long run, as there might be some under-quotation of prices in the first wave of bidding for a tender. Moreover, the quality of survey work should also be evaluated upon its completion. Nevertheless, subject to the quality of survey work being confirmed acceptable, the C&SD would continue contracting out this survey;

(ii) apart from cost, other factors affecting the viability of contracting out should also be considered, e.g. data quality, response timeliness and confidence in providing confidential data to private firms. As complex household surveys (e.g. the General Household Survey) and establishment surveys had more stringent data reporting requirements and always involved sensitive household or business information, the C&SD did not consider the option of contracting them out feasible; and

(iii) as gathered in the courtesy visits, many companies had reservations (including some with strong objections) in providing their information, especially financial data of confidential nature, to private research firms. In fact, possible adverse impact on data quality and low response rate were the two major reasons why other statistical authorities, including those in Canada, Netherlands, Australia, the United Kingdom and Singapore, had never contracted out data collection of business surveys that were directed at commercial firms covering such information as their costs, revenues and finances;

- the C&SD management would keep under regular review the fieldwork monitoring system and the implementation of enhancement measures;

Delivery teams of the Government Supplies Department (GSD)

- a disciplinary inquiry on the managers and supervisors of the Government Logistics Centre (GLC) for not enforcing the relevant departmental rules on attendance had been held in September 1999. Subject to the findings of the inquiry, appropriate punishment might be imposed on the officers;

- to increase the productivity of its delivery teams, the GSD had taken over from the Police Force, since May 1999, the delivery of the working stores to about 140 police formations/offices, and would take over from the Printing Department the delivery of printed paper stationery with effect from 1 November 1999. The GSD would also gradually reduce the size of each delivery team from five members to four for normal jobs by 1 April 2000;

- the GSD had completed the cost comparison between its delivery teams and the private contractor employed for some of its delivery service. According to the GSD, the findings indicated that the two were not comparable, because the former was a full-time service whereas the latter operates on a per-trip basis. In response to the Committee's inquiries, the Director of Government Supplies replied that:

(i) the GSD at present had 18 heavy goods vehicles and associated delivery teams operating from the GLC in Chaiwan. Most members of the delivery team were permanent civil servants and therefore constituted a fixed operational cost. In these circumstances, the Administration aimed to make full and effective use of the GSD delivery teams for the delivery of stores to government departments and other end-users and to employ the transportation contractor only when the GSD teams were fully committed or for special deliveries that required mechanical handling equipment that was not available on GSD's lorries. When the contractor's services were used, he was remunerated on a per trip basis. Because the cost basis was different, a comparison could only be made by converting the GSD transportation team's fixed costs to a per trip cost. There were various other differences that needed to be reconciled for comparison purposes. As the contractor provided an occasional service to supplement GSD's regular service, there might be significant differences in lorry capacity, in the size and weight of goods delivered and in the distance and number of delivery points on each trip. These differences required various assumptions to be made and different results would be obtained depending on how the comparison was constructed. The Administration did not yet feel that it had worked out a satisfactory like-with-like comparison;

(ii) while the focus of the study was on a comparison of cost, the Administration had also looked at the quality of service provided. The transportation contractor had the advantage of a wider range of lorries, many of which were fitted with mechanical handling equipment. His workforce was generally younger than the GSD's, since the GSD was not recruiting to Ganger and Workman posts, while existing staff might elect to continue in service until the age of 60. On the other hand, the GSD teams had the advantage of being more familiar with the delivery locations and with the kind of stores that made up the load. The performance target of delivering stores within seven working days after receipt of the requisition order had been achieved irrespective of whether delivery had been effected by the GSD delivery team or by the transportation contractor;

(iii) the Administration was striving to reduce progressively the cost of the GSD delivery teams, by promoting more flexible working practices that would enable the size of each team to be reduced and by increasing each vehicle's load. Improvements had already been made. For example, the normal team size, including driver, had been brought down from six to five and the Administration was seeking to lower it further. The computer system that had been installed in GLC in 1996 had enabled optimum loads and delivery routes to be calculated. This had enabled the GSD to increase the fill rate of its lorries to more than 80% and to ensure that its teams were working productively throughtout the working day; and

(iv) the GSD was also reducing the number of GSD delivery teams in line with staff wastage. This would enable a greater proportion of the total workload to be assigned to the transportation contractor, while avoiding as far as possible compulsory redundancies among GSD delivery team staff. The number of GSD delivery teams had been reduced from 27 to the present 18 upon the amalgamation of the two depots in 1996 and the GSD intended to reduce the number further when practicable.

46. The Committee wish to be kept informed of further progress on the actions taken on this subject, and urge the Director of Government Supplies to perform a proper cost-comparison exercise between the GSD's delivery teams and private contractors, using costs per unit output (e.g. cost per cubic metre of goods delivered) as a basis for comparison, to ascertain whether it is more cost-effective to contract out the delivery services.

Consideration of the Director of Audit's Reports tabled in the Legislative Council on 17 November 1999 As in previous years, the Committee did not consider it necessary to investigate in detail every observation contained in the Director of Audit's Reports. The Committee have therefore only selected those chapters in the Director of Audit's Report No. 33 which, in their view, referred to more serious irregularities or shortcomings. It is the investigation of those chapters which constitutes the bulk of this Report. The Committee have also sought clarification from the Administration on some of the issues raised in the other four chapters of the Director of Audit's Report No. 33. The Administration's replies have been included in this Report.

2. **Meetings** The Committee held 16 meetings and five public hearings. During the public hearings, the Committee heard evidence from a total of 27 witnesses, including six Bureau Secretaries and 11 Heads of Department. The names of the witnesses are listed in ***Appendix 4*** to this Report. Copies of the Chairman's Introductory Remarks at the public hearing on 7 December 1999 and Opening Remarks at the public hearing on 10 December 1999 are in ***Appendices 5 and 6*** respectively.

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 their deliberations on the relevant chapters of the Director of Audit's Reports, are set out in Chapters 1 to 11 below.

4. A verbatim transcript of the Committee's public proceedings will be placed in the Library of the Legislative Council for inspection by the public.

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

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 1999.

2. The Committee would like to express their appreciation of the efforts made by the Director of Accounting Services and the Director of Audit to improve the presentation of the Accounts of the Government.

Eric LI Ka-cheung
(Chairman)

Fred LI Wah-ming
(Deputy Chairman)

David CHU Yu-lin

NG Leung-sing

Sophie LEUNG LAU Yau-fun

LAU Kong-wah

Emily LAU Wai-hing

25 January 2000

Director of Audit's Report No. 33 Chapter	**Subject**	**P.A.C. Report No. 33 Chapter**
1	The refuse collection service of the Urban	1

	Services Department	
2	The use of energy-efficient air-conditioning systems in Hong Kong	2
4	Management practices of the Vocational Training Council	3
5	Services provided by the Companies Registry	4
6	Management of on-street parking spaces and parking facilities	5
7	Services for students with special educational needs	6
8	Administration of allowances in the civil service	7
9	The Government's administration of sale of land by tender	8
10	Follow-up review of the problem of indebtedness of some civil servants working in the Hong Kong Police Force	9
11	Review of the financial reporting of the Government	10
12	Water purchased from Guangdong Province	11

RULES OF PROCEDURE OF THE LEGISLATIVE COUNCIL OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION

72. Public Accounts Committee

(1) There shall be a standing committee, to be called the Public Accounts Committee, to consider reports of the Director of Audit –

(a) on the accounts of the Government;

(b) on such other accounts required to be laid before the Council as the committee may think fit; and

(c) on any matter incidental to the performance of his duties or the exercise of his powers as the committee may think fit.

(2) The committee shall also consider any report of the Director of Audit laid on the Table of the Council which deals with examinations (value for money audit) carried out by the Director relating to the economy, efficiency and effectiveness of any Government department or public body or any organization to which his functions as Director of Audit extend by virtue of any Ordinance or which receives public moneys by way of subvention.

(3) The committee shall consist of a chairman, deputy chairman and 5 members who shall be Members appointed by the President in accordance with an election procedure determined by the House Committee. In the event of the temporary absence of the chairman and deputy chairman, the committee may elect a chairman to act during such absence. The chairman and 2 other members shall constitute a quorum.

(4) A report mentioned in subrules (1) and (2) shall be deemed to have been referred by the Council to the committee when it is laid on the Table of the Council.

(5) Unless the chairman otherwise orders, members of the press and of the public shall be admitted as spectators at meetings of the committee attended by any person invited by the committee under subrule (8).

(6) The committee shall meet at the time and the place determined by the chairman. Written notice of every meeting shall be given to the members and to any person invited to attend a meeting at least 5 clear days before the day of the meeting but shorter notice may be given in any case where the chairman so directs.

(7) All matters before the committee shall be decided by a majority of the members voting. Neither the chairman nor any other member presiding shall vote, unless the votes of the other members are equally divided, in which case he shall have a casting vote.

(8) The chairman or the committee may invite any public officer, or, in the case of a report on the accounts of or relating to a non-government body or organization, any member or employee of that body or organization, to give information or any explanation or to produce any records or documents which the committee may require in the performance of its duties; and the committee may also invite any other person to assist the committee in relation to any such information, explanation, records or documents.

(9) The committee shall make their report upon the report of the Director of Audit on the accounts of the Government within 3 months (or such longer period as may be determined under section 12 of the Audit Ordinance (Cap. 122)) of the date on which the Director's report is laid on the Table of the Council.

(10) The committee shall make their report upon the report of the Director of

Audit mentioned in subrule (2) within 3 months (or such longer period as may be determined by the Council) of the date on which the Director's report is laid on the Table of the Council.

(11) Subject to these Rules of Procedure, the practice and procedure of the committee shall be determined by the committee.

Paper presented to the Provisional Legislative Council by the Chairman of the Public Accounts Committee at the meeting on 11 February 1998 on Scope of Government Audit in the Hong Kong Special Administrative Region - 'Value for Money Audits'

SCOPE OF WORK

1. The Director of Audit may carry out examinations into the economy, efficiency and effectiveness with which any bureau, department, agency, other public body, public office, or audited organisation has discharged its functions.

2. The term "audited organisation" shall include -

(i) any person, body corporate or other body whose accounts the Director of Audit is empowered under any Ordinance to audit;

(ii) any organisation which receives more than half its income from public moneys (this should not preclude the Director from carrying out similar examinations in any organisation which receives less than half its income from public moneys by virtue of an agreement made as a condition of subvention); and

(iii) any organisation the accounts and records of which the Director is authorised in writing by the Chief Executive to audit in the public interest under section 15 of the Audit Ordinance (Cap. 122).

3. This definition of scope of work shall not be construed as entitling the Director of Audit to question the merits of the policy objectives of any bureau, department, agency, other public body, public office, or audited organisation in respect of which an examination is being carried out or, subject to the following Guidelines, the methods by which such policy objectives have been sought, but he may question the economy, efficiency and effectiveness of the means used to achieve them.

GUIDELINES

4. The Director of Audit should have great freedom in presenting his reports to the Legislative Council. He may draw attention to any circumstance which comes to his knowledge in the course of audit, and point out its financial implications. Subject to these Guidelines, he will not comment on policy decisions of the Executive Council and the Legislative Council, save from the point of view of their effect on the public purse.

5. In the event that the Director of Audit, during the course of carrying out an examination into the implementation of policy objectives, reasonably believes that at the time policy objectives were set and decisions made there may have been a lack of sufficient, relevant and reliable financial and other data available upon which to set such policy objectives or to make such decisions, and that critical underlying assumptions may not have been made explicit, he may carry out an investigation as to whether that belief is well founded. If it appears to be so, he should bring the matter to the attention of the Legislative Council with a view to further inquiry by the Public Accounts Committee. As such an investigation may involve consideration of the methods by which policy objectives have been sought, the Director should, in his report to the Legislative Council on the matter in question, not make any judgement on the issue, but rather present facts upon which the Public Accounts Committee may make inquiry.

6. The Director of Audit may also -

(i) consider as to whether policy objectives have been determined, and policy decisions taken, with appropriate authority;

(ii) consider whether there are satisfactory arrangements for considering alternative options in the implementation of policy, including the identification, selection and evaluation of such options;

(iii) consider as to whether established policy aims and objectives have been clearly set out; whether subsequent decisions on the implementation of policy are consistent with the approved aims and objectives, and have been taken with proper authority at the appropriate level; and whether the resultant instructions to staff accord with the approved policy aims and decisions and are clearly understood by those concerned;

(iv) consider as to whether there is conflict or potential conflict between different policy aims or objectives, or between the means chosen to implement them;

(v) consider how far, and how effectively, policy aims and objectives have been translated into operational targets and measures of performance and whether the costs of alternative levels of service and other relevant factors have been considered, and are reviewed as costs change; and

(vi) be entitled to exercise the powers given to him under section 9 of the Audit Ordinance (Cap. 122).

PROCEDURES

7. The Director of Audit shall report his findings on value for money audits in the Legislative Council twice each year. The first report shall be submitted to the President of the Legislative Council within seven months of the end of the financial year, or such longer period as the Chief Executive may determine. Within one month, or such longer period as the President may determine, copies shall be laid before the Legislative Council. The second report shall be submitted to the President of the Legislative Council by the 7th of April each year, or such date as the Chief Executive may determine. By the 30th April, or such date as the President may determine, copies shall be laid before the Legislative Council.

8. The Director's report shall be referred to the Public Accounts Committee for consideration when it is laid on the table of the Legislative Council. The Public Accounts Committee shall follow the rules governing the procedures of the Legislative Council in considering the Director's reports.

9. A Government minute commenting on the action Government proposes to take in respect of the Public Accounts Committee's report shall be laid on the table of the Legislative Council within three months of the laying of the report of the Committee to which it relates.

10. In this paper, reference to the Legislative Council shall, during the existence of the Provisional Legislative Council, be construed as the Provisional Legislative Council.

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

Mr R D Pope, JP	Director of Lands
Mr Gordon SIU Kwing-chue, JP	Secretary for Planning, Environment and Lands (*Secretary for Planning and Lands after 1 January 2000*)
Mr Bosco FUNG Chee-keung, JP	Director of Planning
Mr CHAN Pun-chung, JP	Deputy Director of Planning (District)
Mr Stephen IP Shu-kwan, JP	Secretary for Economic Services
Mrs Erika HUI	Assistant Commissioner for Tourism
Mr Nicholas NG Wing-fui, JP	Secretary for Transport
Miss Margaret FONG	Deputy Secretary for Transport
Mr R C L Footman, JP	Commissioner for Transport
Mr Peter LUK	Principal Transport Officer (Management), Transport Department
Mr LEUNG Cham-tim, JP	Director of Electrical and Mechanical Services
Mr CHENG Shing-chuen	Senior Project Engineer, Electrical and Mechanical Services Department
Mr LAM Woon-kwong, JP	Secretary for the Civil Service
Mr Duncan Pescod	Deputy Secretary for the Civil Service
Miss Denise YUE Chung-yee, JP	Secretary for the Treasury
Mrs Carrie LAM CHENG Yuet-ngor, JP	Deputy Secretary for the Treasury
Mr Alan LAI Nin	Commissioner, Independent Commission Against Corruption
Mr LEE Lap-sun, JP	Commissioner for Official Languages

Mr Wilfred TSUI Chi-keung	Judiciary Administrator
Mr K K LAM	Acting Assistant Director/Energy Efficiency, Electrical and Mechanical Services Department
Mr H B Phillipson, JP	Acting Secretary for Works
Mr CHAN Wing-sang, JP	Deputy Secretary for Works (Works Policy)
Mr CHAN Pui-wah, JP	Acting Director of Water Supplies
Dr CHAN FUNG Fu-chun, JP	Director of Health
Mr PAU Siu-hung, JP	Director of Architectural Services
Mr LUK Ping-chuen, JP	Postmaster General
Mr Allan CHIANG, JP	Deputy Postmaster General

APPENDIX 5

Introductory remarks by the Chairman of the Public Accounts Committee, the Hon Eric LI Ka-cheung, JP at the public hearing of the Committee on Tuesday, 7 December 1999

Good afternoon, ladies and gentlemen. Welcome to this public hearing of the Public Accounts Committee.

For the benefit of the members of the public and other concerned parties who are interested, I would like to give a brief outline about the role and function of the Public Accounts Committee.

The Public Accounts Committee is a standing committee of the Legislative Council. It plays the role of a watchdog over public expenditure through consideration of the reports of the Director of Audit laid before the Council on the accounts and the results of value for money audits of the Government and of organizations which receive funding from the Government. In accordance with Rule 72 of the Rules of Procedure of the Legislative Council, the Committee is required to make its report upon the Director's report to the Legislative Council within three months of the date on which the Director's report is laid on the Table of the Council. The purposes of the Committee's considering the Director's report are to receive evidence relevant to the report in order to ensure that the facts ascertained are accurate, and to make conclusions and recommendations in a constructive spirit and forward-looking manner. I also wish to stress that the

objective of the whole exercise is such that the lessons learned from past experience and our comments on the performance of public officers concerned will enable the Government to improve its control over the expenditure of public funds, with due regard to economy, efficiency and effectiveness.

The consideration of the Director's report follows an established process of public hearing, where necessary, internal deliberations and publication of the Committee's report. The Committee has adopted procedures for ensuring that all parties concerned have a reasonable opportunity to be heard. After the Committee is satisfied that it has ascertained the relevant facts, it will proceed to making a judgement on those facts followed by a process of formulating its conclusions and recommendations.

The Director of Audit's Report on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 1999 and his Report on the results of value for money audits completed between March and September 1999 i.e. Report No. 33, were tabled in the Legislative Council on 17 November 1999. Following our preliminary study of the Director's Report No. 33, the Committee has decided to invite the public officers and relevant parties concerned to appear before the Committee and answer our questions in respect of seven chapters of the Director Report. Apart from this afternoon, we have also set aside the mornings of 10 and 16 December for our public hearings. The Committee will conduct another hearing in January 2000 to study Chapter 1 of Report No. 33. After we have studied the issues and taken the necessary evidence, we will produce our conclusions and recommendations which will reflect the independent and impartial judgement and views of the Committee. These recommendations will be made public when we report back to the Legislative Council within three months' time. Before then, we will not, as a committee or individually, be making any public comment on our conclusions.

Finally, I would like to draw your attention to the fact that Chapter 1 of Report No. 33 concerns "The refuse collection service of the Urban Services Department". In this connection, I have been formally notified by my colleague, Hon Fred LI Wah-ming, that he is a serving member of the Provisional Urban Council. The Committee considers that it is proper for him to make the declaration. In order to avoid any conflict of interests and to maintain the impartiality of the Committee, the Committee has agreed that Mr LI be exempted from the deliberations relating to this particular subject. He will not ask questions in the public hearing nor participate in the discussion and compilation of the report on Chapter 1 of the Director of Audit's Report No. 33.

I now declare the Committee to be in formal session.

APPENDIX 6

Opening Remarks by the Chairman of the Public Accounts Committee, the Hon Eric LI Ka-cheung, JP

at the public hearing of the Committee
on Friday, 10 December 1999

Good morning, ladies and gentlemen. At today's public hearing, the Public Accounts Committee will continue to receive evidence from Controlling Officers on issues raised in the Director of Audit's Report No 33. Chapter 8 of Report No. 33 concerns "Administration of allowances in the civil service". In this connection, I have been notified by my colleague, Hon LAU Kong-wah, that his wife is a staff member of one of the organisations mentioned in the chapter. The Committee considers that it is proper for him to make the declaration. In order to avoid any conflict of interests and to maintain the impartiality of the Committee, the Committee has agreed that Mr LAU be exempted from the deliberations relating to this particular subject. He will not attend the public hearing nor participate in the discussion and compilation of the report on Chapter 8 of the Director of Audit's Report No. 33.

The Public Accounts Committee originally planned to hold a public hearing on the above subject in December 1999, but eventually decided to postpone this in view of the imminent restructuring of the municipal services. A new organisation was subsequently established on 1 January 2000 to take over the responsibility of the former Urban Services Department. The Committee have decided to hold the public hearing on 24 February 2000 to receive evidence from the Secretary for the Environment and Food, the Director of Food and Environmental Hygiene and the former Director of Urban Services on the issues raised in the Director of Audit's Report.

2. The Committee will make a full report on this subject in a supplemental report.

The Committee noted Audit's review of the use of energy-efficient air-conditioning systems in Hong Kong. The review also covered the following aspects:

- the Government's effort in promoting the wider use of energy-efficient air-conditioning systems;

- the Water Supplies Department's (WSD) ban on the use of mains water for air-conditioning purposes;

- the adequacy of fresh water supply to meet future demand if the use of mains water for air-conditioning purposes was permitted; and

- health concern over the operation of fresh water cooling towers.

2. The Committee noted that in 1998, the commercial sector accounted for 59% of the total electricity consumption in Hong Kong. According to Audit's estimate, if water-cooled air-conditioning systems (WACS) were used by the commercial sector, this could result in annual savings of $1.2 billion in electricity consumption. In this light, the Committee asked whether the Government had a long-term policy for promoting the use of WACS in Hong Kong and whether there was an inter-departmental committee overseeing this issue. The Committee were also concerned about the adequacy of fresh water supply in the event of the wider use of WACS.

3. **Mr Gordon SIU Kwing-chue**, **Secretary for Planning, Environment and Lands**, said that:

- an inter-departmental committee had been set up and the current policy was to encourage the establishment of the centralised cooling systems in new districts. The Administration was considering the question on two fronts. For new districts abutting the sea, such as the South East Kowloon Development District, the Central and Wan Chai reclamation site, the future Tsuen Wan and Hong Kong Island West reclamation sites, the adoption of a centralised piped supply of sea water system was being considered. For built-up areas such as the new towns in the New Territories and urban areas which were far away from the sea, there would be more technical problems in installing the centralised cooling systems. The Administration would take a long-term view and consider how it could encourage the establishment of the centralised cooling systems in these districts;

- different facilities would be required for different areas. If it was not technically feasible for some districts to adopt the centralised cooling systems, other options such as the piping systems would be considered. The Administration's objective was to provide the infrastructure so as to enable commercial buildings to convert to WACS more easily; and

- from the point of view of sustainable development, fresh water is more precious. Thus, if the sea water system was feasible, then it would be preferable. But for inland districts, this might not be feasible.

4. **Mr H B Phillipson**, **Acting Secretary for Works**, said that:

- the issue relating to water resources was one of the key considerations in promoting the wider use of WACS. The fresh water supply situation had changed considerably in the last ten years. The availability of raw water was in a much better position. However, the capacity of treatment works was also critical. The water treatment plant at Ngau Tam Mei would be completed later in 2000 and another one at Tai Po in 2001. With these additions, there would be sufficient treated water for a possible move towards the wider use of WACS;

- aside from water treatment considerations, the capacity of local water distribution systems was also important. If WACS usage increased significantly in a particular commercial district, there would be an urgent need to upgrade the water distribution systems in that district. However, there was a risk that other facilities in the district such as the operation of fire hydrants and services to customers would be affected; and

- the Works Bureau and the departments concerned were very keen to assist the Planning, Environment and Lands Bureau in taking the initiative forward. At the same time, the constraints had to be considered and overcome.

5. The Committee noted that in paragraph 2.19 of the Audit Report, the Director of Electrical and Mechanical Services pointed out that the effective energy saving for WACS could not be maintained at 30% to 40% all year round. Based on the latest available data, the saving in electricity consumption and the net saving in operating costs would be lower than the estimates made in 1996. The Committee asked whether any studies had been conducted to ascertain the cost-effectiveness of WACS, and about the level of energy saving that could be achieved if WACS were to be adopted.

6. **Mr LEUNG Cham-tim**, **Director of Electrical and Mechanical Services**, advised the Committee that:

- the findings of the Preliminary Phase of a consultancy study commissioned in 1998 confirmed that the district cooling system was the most energy-efficient option with the highest economic and financial benefits; and

- in ideal operating conditions, a saving of 37% could be achieved for WACS. However, according to the review of the Electrical and Mechanical Services Department (EMSD), the average energy saving level would be about 22%.

7. The **Acting Secretary for Works** added that the most significant savings would be achieved by the district cooling systems. For a system which served up to 20 large commercial buildings, savings could amount to 32% in electricity consumption and 26% in operating costs. For conversions in individual buildings, the savings would be less significant i.e. around 10% for electricity consumption and 2% for operating costs.

8. The Committee noted that due to the ban on the use of mains water for WACS, most commercial and industrial buildings had been forced to use air-cooled air-conditioning systems (AACS). In the meantime, surplus fresh water from Dongjiang was overflowing from the reservoirs into the sea. The Committee asked whether this state of affairs meant that both energy and water conservation were being sacrificed and whether the WSD still insisted that mains water should not be used for WACS. The Committee also asked whether the Administration had any plans to encourage commercial buildings to switch from AACS to WACS.

9. The **Acting Secretary for Works** said that:

- the security of water supply to the public had always been the top priority and that the Administration had to guard against extreme drought conditions. If there were a one in 50 year drought, the yield from rainfall and the water from Guangdong Province would not be sufficient to meet the needs of the public. The reserve in the reservoirs would then be drawn upon to provide adequate supply. In fact, the current surplus water situation was caused by seven exceptionally wet years. As action had to be taken to ensure that there would be adequate water supply during the very dry years, some overflow in the very wet years would be inevitable; and

- the WSD was not opposed to the idea of promoting the wider use of WACS. Its primary concern was the water resource situation. As the situation had improved, there should be sufficient water supply to meet the needs arising from the wider use of WACS. In spite of that, there would not be adequate water treatment capacity until two years later. The capacity of the water distribution system might also need to be upgraded. Under such circumstances, it would have been irresponsible for the Director of Water Supplies to relax the ban on the use of fresh water for air-conditioning purposes immediately.

10. The **Secretary for Planning, Environment and Lands** also pointed out that from a planning point of view, the Administration's hope was to make both sea water and fresh water systems available to commercial buildings. However, for the existing commercial buildings, if they wished to switch from AACS to WACS, two factors i.e. the distribution system already installed within the building and the capacity of the water-cooling system had to be considered. It would be difficult for a building using AACS to switch over to WACS within a very short period of time. What the Government could do was to provide infrastructural support like waterworks. New commercial buildings would then have the option to consider adopting WACS.

11. From paragraphs 3.1 to 3.3 of the Audit Report, the Committee noted that the subject of using WACS as a potential area of energy saving was discussed by the Energy Efficiency Advisory Committee in 1991. The subject was again considered by the Energy Efficiency and Conservation Sub-Committee (EECSC) in 1997. At a meeting held in January 1997, the EECSC expressed support for the wider use of WACS in Hong Kong and requested the Government to study how to take this matter forward. At another meeting held in July 1997, the Government advised that it would conduct a consultancy study on the feasibility of and economic justifications for the wider use of WACS, and that the study would cost $50 million and last six years. According to paragraph 3.4, some members of the EECSC had expressed disappointment at the Government's decision to conduct the consultancy study only. They also pointed out that most professionals would agree that WACS would be more energy-efficient than AACS and that it was a waste of time to carry out a feasibility study to adopt WACS. In the light of the above, the Committee asked:

- why the Administration did not heed the EECSC's comments and proceeded with the consultancy study;

- whether it was fair for the EECSC to comment that the consultancy was a waste of money; and
- when the conclusions from the study could be expected.

12. The **Director of Electrical and Mechanical Services** said that:

- funding for the Preliminary Phase of the consultancy study was sought in April 1997. While the total budget for the consultancy study was $50 million, the Preliminary Phase had only cost $3.2 million;

- the Preliminary Phase of the consultancy study commenced in October 1998 and had now been completed. Many aspects had been covered, including a comparison between various WACS with AACS, the mechanism for monitoring and maintaining the district cooling systems, the supervision of the existing cooling towers and the risk and prevention of Legionnaires' Disease (LD). The report was issued in mid-1999; and

- subject to the availability of funds, the Preliminary Phase would be followed by a territory-wide study and district-based studies. The studies would commence in mid-2000 and would proceed in parallel. They would be completed by 2001.

13. The Committee noted that according to paragraph 3.14 of the Audit Report, the Secretary for Planning, Environment and Lands was very keen on the idea of promoting the wider use of WACS because there were potentially very significant benefits to the community in his policy areas. He was also of the view that it was not the exclusive preserve of the WSD to decide government policy, even on issues which involved water, and that the difficulties and constraints were not insurmountable. Then in paragraph 3.21, the EMSD decided to bring forward the Phase 2 Study and make it a Territorial Study. The Committee asked whether the EMSD's decision to expedite Phase 2 of the consultancy study to mid-2000 was a result of the views expressed by the Secretary for Planning, Environment and Lands. The **Director of Electrical and Mechanical Services** said that the timetable of the consultancy study was shortened because the Administration decided that all three follow-up studies would be conducted simultaneously. The availability of resources was another consideration.

14. The **Acting Secretary for Works** assured the Committee that the EECSC was treated with great respect and that their ideas were taken on board as soon as possible. However, the water supply situation was that the ban on using mains water could not be relaxed immediately. It was therefore prudent to take a cautious approach in addressing the issue. The Works Bureau and the departments concerned were providing support to the Planning, Environment and Lands Bureau as much as they could.

15. On the need for the consultancy study and the conservative attitude adopted by the Administration in the past, the **Secretary for Planning, Environment and Lands** said that:

- for areas abutting the sea, it was not necessary to verify the benefits of WACS. Hence, there was no need to wait for the completion of the territory-wide study. The question that needed to be considered was how the centralised piped supply of sea water system could be introduced; and

- it was recognised that the water resource situation had improved and there was surplus water supply. However, from the sustainable development angle, water should be conserved. The question of supplying fresh water for air-conditioning purposes should be carefully considered because in the event of a drought, it would be difficult to stop the water supply to the cooling towers in order to maintain adequate supply to the public. It should also be noted that many parts of the world suffered from a deficit in water supply. Accordingly, it would be prudent to adopt a cautious attitude.

16. The **Acting Secretary for Works** added that New York City also disallowed using mains water for WACS for water conservation considerations. Every water authority had to make a very careful judgement as to how much it could expand its services without prejudicing the water supply to the public. Furthermore, district cooling systems involved rather complex issues such as development, operations, financing, maintenance and property rights. These issues were not covered in the Preliminary Phase of the consultancy study and had to be carefully studied in the follow-up studies.

17. In reply to the Committee's question on whether the Administration had conducted any study to assess the likely demand for fresh water for air-conditioning, the **Acting Secretary for Works** said that an estimation had been done. The existing 12,000 cooling towers, which were identified in a survey conducted by the EMSD in 1996, consumed about 7 million cubic metres of water a year. If all AACS were converted to WACS, about 100 million cubic metres of water would be used. Subject to the various limitations mentioned earlier, there should not be any major problem with raw water supply for the next fifteen years, which was the time period being considered for the gradual conversion to WACS. In the meantime, a substantial amount of work had to be done to upgrade the treatment and distribution systems.

18. **Mr CHAN Wing-sang**, **Deputy Secretary for Works (Works Policy)**, supplemented that the exising water-cooling systems only took up 1% of the actual total water consumption. This would be increased to 10% if fresh water were to be used for air conditioning in commercial premises. That was why a gradual conversion to WACS was preferred. **Mr CHAN Pui-wah**, **Acting Director of Water Supplies**, also said that by 2001, the Tai Po treatment plant would be commissioned to augment the water supply to the urban areas in Hong Kong and Kowloon where most WACS conversions were expected to take place. Before then, there would be difficulties in relaxing the ban on the use of mains water for air-conditioning purposes on a full scale.

19. With reference to paragraph 4.13 of the Audit Report, the Committee noted that the WSD had conducted a review on the use of mains water for air conditioning which should have been completed by November 1999. The Committee asked what the findings of the review were. The **Deputy Secretary for Works (Works Policy)** said that one of the findings of the review was that the water treatment works would have sufficient capacity by 2001 to meet the additional water demand from WACS. However, the capacity of the distribution system was not adequate to cope with the additional requirement. An inter-departmental working group had been set up to carry out a pilot scheme for promoting the use of WACS in five districts including Yau Ma Tei, Wan Chai, Tai Po Industrial Estate, Yuen Long Industrial Estate and Pokfulam.

20. The Committee asked whether the Administration had to amend the relevant regulations if it were to relax the ban on the use of mains water for air-conditioning purposes. The **Acting Secretary for Works** said that there was no need to amend the existing regulations because people would still be required to apply for permission to use mains water for air-conditioning purposes. However, the permission would be granted more readily.

21. From paragraph 4.10 of the Audit Report, the Committee noted that only 116 of the 12,000 cooling towers in Hong Kong were given approval by the Water Supply Department in the past 20 years to use fresh water for air-conditioning purposes. In 1997 and 1998, the WSD had only prosecuted six cases of misuse of water for air-conditioning purposes. The Committee asked why so little enforcement action had been taken. The **Deputy Secretary for Works (Works Policy)** said that:

- some of the 12,000 cooling towers were no longer in use because the factories for which the cooling towers were installed had relocated; and

- warnings would be issued if complaints were received or when breaches were identified. Some 300 warnings had been issued in the past. As ten of the establishments were repeated offenders, they had been prosecuted.

22. Having regard to the information provided by the Director of Electrical and Mechanical Services that the number of cooling towers had increased by 6%, and that 60% of the 12,000 cooling towers appeared to be not properly maintained, the Committee were concerned about potential health problems arising from the absence of adequate supervision to ensure proper maintenance of the cooling towers. The Committee asked whether the Administration had a policy to address this issue. The **Acting Secretary for Works** said that:

- from the point of view of water supply, these cooling towers were not causing concern. However, it was clear that the situation would need rationalisation. This had to be reviewed in the expectation that the ban on the use of fresh water for air conditioning would be relaxed in one or two years' time;

- the experience of the WSD was that it was not easy to identify the buildings and the premises to which the cooling towers were related. It was also hard to detect the unauthorised connections because they are installed within the premises. As the operators were paying for the water consumed, they were not using the water illegally. In spite of these difficulties, the WSD would continue to enforce the regulations; and

- his understanding was that the risk of LD was not a major issue at the moment. However, this would have to be dealt with if the wider use of fresh water cooling towers was permitted.

23. The **Acting Director of Water Supplies** supplemented that there was no major outbreak of LD in Hong Kong in the past decade. In fact, the number of reported cases had been very low. It could therefore be assumed that the presence of the 12,000 cooling towers had not increased the risk of LD. There was also a possibility that these cooling towers had been properly maintained.

24. **Dr CHAN FUNG Fu-chun**, **Director of Health**, also said that:

- the risk of LD was always there because the bacteria did not just survive in mains water, but could also proliferate in raw water; and
- as far as WACS were concerned, the risk of LD was substantially lower if sea water was used. However, it did not mean that fresh water should not be used for WACS. The wider use of fresh water for air-conditioning purposes should be encouraged only if a proper system was put in place to monitor the design, operation and maintenance of the water cooling towers with a view to safeguarding public health.

25. The Committee noted Audit's view in paragraph 3.16 that the local professional engineering bodies and organisations were generally well aware of the use and benefits of WACS. Developers and users should be given the option of installing WACS in new buildings and also in existing buildings when their air-conditioning plants were due for replacement. This approach would require little government intervention and allow the private sector to make use of WACS to save energy. The Committee asked, from the point of view of sustainable development, whether the Administration would encourage the wider use of WACS to save energy.

26. The **Secretary for Planning, Environment and Lands** said that:

- the Administration would encourage the use of sea water for WACS for sites near the waterfront. This would be beneficial to all parties concerned because energy could be saved and the air quality could be improved;

- however, a more cautious approach should be adopted in the use of fresh water. Apart from the risk of LD, there were the concerns about the demand on fresh water and the capacity of the distribution systems; and

- a territory-wide consultancy study would be conducted. The overall objective was to reduce the demand on energy and air pollution by using water for cooling towers as far as possible, irrespective of whether it was sea water or fresh water and so long as the technical problems could be overcome.

27. In his letters of 20 December 1999, 4 January 2000 and 8 January 2000 in ***Appendices 7 to 9***, the **Secretary for Works** provided the Committee with the following additional information:

- the Buildings Department would monitor the illegal structures supporting cooling towers outside external walls;

- the monitoring of the misuse of water for air conditioning was carried out by the WSD's Regional Consumer Services Sections. Prosecution was undertaken by the WSD's Prosecution Unit. The WSD would continue to enforce the Waterworks Regulations in respect of the use of mains water for air-conditioning purposes in the same way as before. If an unauthorised extension of the inside service was discovered in the course of building inspection or upon a public complaint, then the WSD would give a warning and ask the operator to remove it. The Administration's experience was that these irregularities were rectified following the warning. However, if the operator refused to rectify the unauthorised extension, he would be prosecuted;

- for the prevention of LD, the current practice was to encourage operators of water cooling towers to follow the Code of Practice. The Administration would consider implementing a regulatory and control mechanism if the wider use of fresh water cooling towers was permitted. This aspect would be covered in the forthcoming territory-wide study by the EMSD;

- the Report of the WSD's Review in November 1999 had recommended that the current policy on the use of mains water for air-conditioning purposes in non-domestic premises could be relaxed starting from 2000. Applications for permission to use mains water in WACS would have to be examined on a district basis, subject to the availability of spare capacity in the local water supply and distribution systems to meet the additional cooling water demand;

- at the end of 1999, the Administration had assessed the possible additional fresh water demand arising from the adoption of WACS using fresh water cooling towers. It was found that the total demand, including the demand from using WACS, for the next ten years could be met with an adequate safety margin;

- the Preliminary Phase of the consultancy study was necessary and useful in providing independent findings and recommendations to enable the Administration to gain insights into the engineering, environmental and economic viability of the wider use of WACS, as well as benefits and disadvantages of a variety of feasible WACS schemes;

- it was first suggested in March 1999 that the consultancy studies could be adjusted so that some districts requiring less intensive WACS infrastructure could achieve potential energy saving earlier. This recommendation was endorsed by the Secretary for Planning, Environment and Lands and other senior officials in the Economic Services Bureau, Finance Bureau, Information, Technology and Broadcasting Bureau and Works Bureau in May 1999; and

- it would be beneficial to set up a registration and licensing system for cooling towers in order to facilitate the monitoring and control of LD. Given adequate resources and time, the Administration did not envisage insurmountable problems in setting up the system. This would be considered in the territory-wide consultancy study. The study would also examine how the existing cooling towers could be brought under the regulation of the future registration and licensing system.

28. In her letter of 10 January 2000 in ***Appendix 10***, the **Secretary for the Environment and Food** provided the Committee with further information on the consultancy studies. She also advised the Committee that the wide range of issues covered in these studies would not be entirely within the management duty, expertise and knowledge of any single department including the EMSD and the WSD. It had been agreed within the Administration that the Secretary for Planning and Lands would take the lead in the studies with the support of the EMSD's Energy Efficiency Office (EEO) as the technical adviser. However, at the time, the EEO was fully committed to the existing initiatives and could only manage to redeploy sufficient resources to supervise the Preliminary Phase of the consultancy study. This was already at the expense of delays to other energy efficiency and conservation initiatives.

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

- recognise that the subject of using water-cooled air-conditioning systems (WACS) was raised by the Energy Efficiency Advisory Committee in 1991 and that the Water Supplies Department (WSD) had reviewed the use of mains water for air-conditioning purposes in 1995;

- express strong dissatisfaction that the Director of Water Supplies, in deciding not to relax the ban on the use of mains water for air-conditioning purposes after the review in 1995, has failed to take into account the facts that:

  (i) the industrial consumption of fresh water in Hong Kong has been on a declining trend since the early 1990s;
  (ii) there is a steady supply of fresh water from Guangdong Province; and
  (iii) there is a substantial forecast surplus supply of fresh water for the years from 1999 to 2012;

- concur with the view expressed by the Energy Efficiency and Conservation Sub-Committee (EECSC) in January 1997 that air conditioning in commercial premises is no longer simply for comfort but has become a basic requirement for business operations;

- concur with the views expressed by some members of the EECSC in July 1997 that:

  (i) it was disappointing to note that the Government had only proposed to conduct a consultancy study;

(ii) most professionals would agree that WACS would be more energy-efficient than AACS and this did not need to be re-established; and

(iii) it was a waste of time to carry out a feasibility study to adopt WACS;

- express dismay that the Government commissioned the consultancy study in 1998 to assess the feasibility of and the economic justifications for the wider use of WACS, despite the fact that:

  (i) with the necessary support from relevant departments, the assessment should be within the management duty, expertise and knowledge of the WSD and the Electrical and Mechanical Services Department (EMSD); and

  (ii) the study will cause unnecessary expense and delay in promoting the wider use of WACS;

- express concern that the consultancy study is not addressing the issue of using energy-efficient air-conditioning systems in the most effective way, as the scope of the study does not include a detailed examination of the rationale for disallowing the use of mains water for air-conditioning purposes;

- express strong dismay that the Director of Water Supplies still resists the idea of allowing the use of fresh water for WACS and that, with the commissioning of the consultancy study, the scope and the value of which have been questioned, the process of relaxing the ban on WACS has been further delayed;

- acknowledge the views of the Secretary for Planning, Environment and Lands on the current position of the implementation of the more energy-efficient WACS, particularly the seawater-cooled district cooling systems;

- consider that the WSD should relax the ban on the use of mains water for air-conditioning purposes, in the light of the conclusion of the WSD's latest review, completed in November 1999, that the water treatment works would have sufficient capacity by 2001 to cope with the additional demand of the WACS;

- urge the Administration to expedite its efforts in promoting and facilitating the wider use of WACS in Hong Kong;

- express concern that:

  (i) the Prevention of Legionnaires' Disease Committee (PLDC) can only promote voluntary compliance with the Code of Practice by cooling tower owners and operators;

  (ii) the requirements of the Code of Practice are not followed up by a monitoring system to safeguard public health;

(iii) the 1996 EMSD's survey revealed that 14% of the 12,000 cooling towers in Hong Kong were not properly installed and 47% of them were poorly maintained; and

(iv) the PLDC has not proceeded further with its original idea of establishing a registration system of cooling towers;

- concur with the Director of Health's remarks at the public hearing that the wider use of fresh water for air-conditioning purposes should be encouraged only if a proper system is put in place to monitor the design, operation and maintenance of the water cooling towers with a view to safeguarding public health;

- recommend that, in order to minimise the risk of Legionnaires' Disease, the Secretary for Works and the Director of Electrical and Mechanical Services should:

(i) consider ways, including the setting up of a registration and licensing system, of requiring operators and owners of fresh water cooling towers to comply with the Code of Practice on the proper operation and maintenance of cooling towers; and

(ii) ensure that, as a matter of urgency, the operation and maintenance of the existing 12,000 water cooling towers are closely monitored, and that there would be a smooth transition to bring these cooling towers under the regulation of the future registration and licensing system; and

- wish to be kept informed of:

(i) the action plan to be adopted by the WSD for relaxing the ban on the use of mains water for air-conditioning purposes;

(ii) the strategies to be adopted by the EMSD and the WSD for promulgating the requirements of the Code of Practice on the proper operation of cooling towers and for regulating the operation of illegal fresh water cooling towers; and

(iii) the findings of the Phase 1 and Phase 2 of the consultancy study on the wider use of WACS in Hong Kong.

The Committee held a public hearing on 10 December 1999 to receive evidence on this subject from the Chairman of the Vocational Training Council, the Executive Director of the Vocational Training Council, the Secretary for Education and Manpower and the Director of Architectural Services. The Committee also received additional information from the witnesses after the public hearing.

2. In view of the complexity of the various issues raised, the Committee will hold a second public hearing on 25 February 2000 to receive further evidence from the witnesses. In the circumstances, the Committee have decided to defer a full report on this subject.

The Committee noted Audit's review of the services provided by the Companies Registry (CR). The review had examined:

- whether the CR, having been operating as a trading fund for six years, had made improvement in the quality of service to customers; and

- the effectiveness of the CR in ensuring compliance by companies and their officers with their obligations under the Companies Ordinance (Cap. 32).

2. The Committee noted that according to paragraph 48 of the Audit Report, the progress of implementing on-line search services had been slow. Instead of the originally planned implementation date of early 1998, the Companies Registry On-line Public Search System (CROPS) would only be available for public use in early 2000. In paragraph 49, Audit expressed reservations as to whether CROPS could meet the needs of customers. The Committee asked whether the CR had adopted any measures to remedy the situation and to address the needs of its customers.

3. The Committee also noted in paragraph 50 of the Audit Report that the CR was preparing a Strategic Change Plan with a view to implementing electronic filing, electronic processing and electronic searching by 2005. However, compared with the Land Registry and the companies registries in certain overseas countries, the CR was lagging behind in implementing computerisation and on-line search services. The Committee were concerned about the progress of the Plan and asked about the key target dates for its implementation.

4. From paragraph 63 of the Audit Report, the Committee noted with concern that in 1998-99, 36,646 companies did not file annual returns and that the amount of annual registration fees uncollected by the CR was about $60 million. The Committee also noted in paragraph 80 that a major portion of the CR's income came from annual registration fees of late returns and that in the long term, the revenue from the late filing of returns might be reduced significantly if more companies filed returns on time and paid the basic fee. The Committee therefore asked to be provided with the following information:

- the specific measures that the CR had adopted to improve the compliance rate of filing of annual returns and to reduce its reliance on the late filing revenue;

- the business and financial plans of the CR for the coming two years, i.e. 2000-01 and 2001-02; and

- the CR's budget for 2000-01 with detailed analysis of income and expenditure.

5. The response of the **Acting Registrar of Companies** to the Committee's enquiries is set out in his letter of 29 December 1999, in ***Appendix 11***. The Committee took note of the information provided therein.

The Committee noted that Audit had conducted a review on the management of on-street parking spaces and parking facilities, with the following objectives:

- to evaluate whether on-street parking spaces had been administered efficiently and effectively;

- to examine the administration of the contract for the management of parking meters;

- to review the procurement of electronic meters and the use of e-park cards; and

- to review the park-and-ride facilities at the Sheung Shui Railway Station, and the provision of motor cycle and visitor parking facilities in new developments.

Metering of on-street parking spaces

2. The Committee noted from paragraph 2.6 of the Audit Report that the Administration had stated in a 1981 Executive Council (ExCo) Memorandum that the eventual aim was to extend metering to all parts of the urban areas and the New Towns where on-street parking could be permitted. However, paragraph 2.7 of the Report revealed that as at 1 April 1999, only 69% (or 15,520) of the on-street parking spaces had been metered while 31% (or 6,840) had not been metered. The Committee asked why the metering policy as endorsed by the ExCo had not been fully implemented.

3. **Mr Nicholas NG Wing-fui**, **Secretary for Transport**, stated that the policy of metering parking spaces was based on traffic management needs rather than revenue-raising considerations. He further said that:

- all along the Administration had adhered to the policy set out in the 1981 ExCo Memorandum i.e. to meter on-street parking spaces in the urban areas and in the New Towns. There was a gradual process to extend metering to such areas. The pace of installation hinged on such issues as viability and technical feasibility; and

- there had not been a policy of installing parking meters in areas other than the urban areas and the New Towns. In deciding whether metering should be extended to such areas, the Administration would take into consideration the actual use of the road, the need to discourage long-term parking in particular spots, as well as the need to ensure smooth circulation on the road, so as to ensure that a 15% availability rate was maintained at all times for parking spaces.

4. In the light of the Secretary for Transport's response, the Committee recognised that according to the Administration, there were some areas in the territory where metering was not necessary. The Committee considered that this view was at variance with that of the Director of Audit. In paragraph 2.12 of the Audit Report, the Director of Audit maintained that the Administration's metering policy, as set out in the 1981 ExCo Memorandum, was to extend metering to "all parts" of the urban areas and the New Towns. The Committee asked the Director of Audit for his opinion, particularly on the meaning of all parts of the urban areas and the New Towns.

5. In response, **Mr Dominic CHAN Yin-tat, Director of Audit**, said he considered that the Secretary for Transport's understanding of the policy was the same as his. In other words, metering should first be extended to the urban areas and the New Towns, and then to parts of the New Territories outside the new town boundaries where there was a high utilisation rate. Nevertheless, the Secretary for Transport and he himself held different views about the timing of implementation.

6. Regarding the Secretary for Transport's remark that the policy of metering was based on traffic management needs, the Committee considered that there were potential inconsistencies in the policy. This was because under this principle, it was possible to have parking spaces which were not metered due to the absence of traffic management needs. On the other hand, according to the 1981 ExCo Memorandum, meters should be installed at such parking spaces regardless of whether there were traffic management justifications. In the circumstances, the Committee asked the Secretary for Transport to clarify the Administration's metering policy and the background of the 1981 ExCo Memorandum.

7. In his letter of 4 January 2000 in ***Appendix 12***, the **Secretary for Transport** informed the Committee that:

- the Administration metering policy was that where and when free on-street parking spaces were insufficient to meet demand, the spaces should be metered and charges set to ensure a reasonable turnover was maintained. The policy was clearly predicated on first identifying the need and then exercising control to meet traffic arrangement objectives; and

- as Hong Kong continued to develop, certain parts of the territory (such as built-up areas) saw much greater need for effective control of the on-street parking spaces. In 1981 therefore, in the context of the Administration's submission to the ExCo to revise parking charges, the Administration stated that the eventual aim was to extend metering to all on-street parking spaces in the urban areas and the New Towns. This aim was fully in line with the on-street parking policy.

8. On the implementation of the metering policy, **Mr R C L Footman, Commissioner for Transport**, said that :

- the Transport Department had all along been implementing the metering policy as stated in the 1981 ExCo Memorandum;

- in the past few years, the Transport Department's focus was on the introduction of electronic parking devices. At that time, it was not possible to extend the metering programme as fast as the Department would like because the mechanical parking meters used previously were no longer produced by the manufacturer; and

- having passed through that period and with the completion of the installation of electronic parking devices earlier the year, the Department would launch a five-year programme to install 2,500 parking meters, most of which would be in the next 12 months. Upon completion of the programme, there would still be about 1,600 non-metered parking spaces in the urban areas. The Department would identify the number of these spaces that could be metered as early as possible.

9. The Committee requested the Commissioner for Transport to provide in writing the details of metered and non-metered on-street parking spaces in the territory and the Transport Department's plan for metering the non-metered spaces.

10. The **Commissioner for Transport,** in his letter of 14 December 1999 in ***Appendix 13***, provided the Committee with the statistics of on-street parking spaces as follows:

Number of on-street metered parking spaces	15,500
Number of on-street non-metered parking spaces (including 4,300 spaces for motor cycles)	11,100
Total number of on-street metered and non-metered spaces	26,600

The **Commissioner for Transport** further stated in the letter that:

- there would be about 6,800 non-metered spaces (i.e. 11,100 total spaces less 4,300 motor cycle spaces) requiring consideration of installation of parking meters. The Transport Department already had a plan to install about 2,500 parking meters under the Five Year Parking Meter Expansion Programme 1999-2000 to 2003-2004;

- out of the 4,300 spaces (i.e. 6,800 less 2,500) not yet covered in the above expansion programme, about 1,600 spaces were located in built-up areas and 2,700 near country parks and less developed areas; and

- subject to the availability of funds and the necessary resources for implementation, the Transport Department would examine and include the 1,600 spaces and some of the 2,700 spaces in the above expansion programme, taking into account their utilisation rate and traffic management justifications.

11. The Committee enquired whether the Administration had a definite timetable for installing meters at all the non-metered parking spaces which should be metered. The **Secretary for Transport** stated in his letter of 4 January 2000 that there could be no finite programme for the installation of parking meters as it depended on the pace of urbanisation and the New Town development programme which were on-going. Only a snapshot could be taken at any one particular time. That was why the Transport Department was implementing the metering policy through a five-year rolling programme.

Extending meter operations to Sundays and public holidays

12. Referring to paragraphs 2.15 and 2.16 of the Audit Report, the Committee noted that the Administration had been extending meter operations to Sundays and public holidays since 1982. However, as at 1 April 1999, only 15% (or 2,360) of the 15,520 parking spaces had meters operating on Sundays and public holidays. The Committee asked whether the Transport Department would operate more meters on such days. The Committee also enquired whether the Department's measures could achieve the objective of maintaining a 15% availability rate for on-street parking spaces.

13. In response, the **Commissioner for Transport** stated that :

- the Transport Department's contractor had conducted a survey earlier the year and had identified that the utilisation of parking spaces on Sundays and public holidays was quite heavy in certain areas;

- the Department aimed to extend charges to a further 3,000 meters on Sundays and public holidays. After discussion with the District Councils, the Department could decide on the actual number of spaces to be charged; and

- as regards the 15% availability rate, he understood that the rate was broadly being achieved. Nevertheless, the Department would monitor the situation and require the contractor to carry out regular reviews.

14. The Committee asked whether it was an established practice for the Transport Department to consult the District Councils before extending meter operations to Sundays and public holidays, and whether the District Councils had been consulted before the figure of 3,000 was determined. In reply, the **Commissioner for Transport** said that the contractor had identified through a survey that about 10,000 meters were heavily used on Sundays and public holidays. Out of those 10,000 meters, the Transport Department had identified 3000-odd meters for study in detail to ascertain whether it was necessary to charge them. Following consultation with the District Councils, the Department would be able to decide on the meters to be charged.

15. The **Secretary for Transport** stated that :

- in the policy, there was no target number of meters to be installed every year. It all depended on the actual situation. The Transport Department would keep under regular review the need to adjust the pace of installation;

- with regard to charging on Sundays and public holidays, the Transport Department would focus on the high utilisation areas first to see if meters should be operated in those areas. The Department would have to study the actual situation at each and every location; and

- the Administration did not need to consult the District Councils on the total number of meters to be operated on Sundays and public holidays. Rather, the Administration would consult them on the number and location of the meters to be installed in a particular district.

16. **Mr Peter LUK, Principal Transport Officer (Management)**, added that the Transport Department had indeed consulted the District Councils regarding operating meters on Sundays and public holidays in Causeway Bay, Mong Kok and Wan Chai.

17. The Committee noted that when the Audit Report was first released suggesting that meters should be charged on Sundays and public holidays, there was some strong response from the community. However, the fact that some meters were not operated on Sundays and public holidays was not due to the Administration being generous. Rather, it was due to the shortage of manpower for collecting money from the meters on such days. In view of the public response, the Committee asked whether the Administration would consider providing concessions for members of the public for parking on Sundays and public holidays.

18. In response, the **Secretary for Transport** said that:

- the spirit of the policy was not to increase revenue for the Government. The major consideration for exploring the possibility of charging on Sundays and public holidays was to ensure that there was a sufficiently high availability rate of parking spaces in order to enable members of the public to make use of them on high utilisation days and in high utilisation areas; and

- regarding the possibility of waiving the charge on Sundays and public holidays, the Administration would consider such an idea if it was allowed under traffic management requirements.

19. **Mrs Carrie LAM CHENG Yuet-ngor, Deputy Secretary for the Treasury**, stated that:

- from a revenue point of view, the Finance Bureau supported Audit's recommendations because they could bring in additional revenue;

- however, at present there was no intention to use revenue-raising measures to override traffic management considerations. Hence, regarding the proposal to operate meters on Sundays and public holidays, the Administration's main consideration was traffic management. If there were traffic management needs, the Administration would consider implementing the proposal; and

- while the Finance Bureau did not allocate Government resources based on the amount of revenue that could be collected, it tended to be sympathetic to funding requests for installing additional meters. For example, in 1999-2000, $9 million had been allocated for installing 2,000 electronic meters.

On-street parking for motor cycles

20. According to paragraph 2.28 of the Audit Report, motor-cyclists were not required to pay a fee for using on-street parking spaces, although these was no stated policy to exclude motor-cyclists from paying for the use of parking spaces. Audit was unable to find any documented reasons for this free usage. The Committee asked what the Administration's policy concerning metering of motor cycle parking spaces was.

21. The **Secretary for Transport** stated that at present there was no policy stipulating that the Administration should charge all parking spaces which could be used for the parking of motor cycles. For areas where there was a high utilisation rate, the Administration could apply the 15% availability rate as the benchmark for metering motor cycle parking spaces. However, there were certain technical difficulties that had to be overcome before installation of meters for motor cycles could be implemented.

22. The **Commissioner for Transport** added that the Transport Department agreed in principle that motor cycles should be charged. He would examine the need for provision of parking meters for the 4,300 motor cycle parking spaces on traffic management grounds. This would be subject to the satisfactory resolution of the operational and enforcement problems.

23. Regarding the operational and enforcement problems, the **Commissioner for Transport** and the **Principal Transport Officer (Management)** highlighted the following difficulties and proposed solutions:

- unlike a car, a motor cycle could easily be moved from one spot to another or shoved over to make way for another motor cycle. That was why in the busiest areas there was exceptionally high utilisation of the spaces, even up to 120%;

- it was possible that after a motor-cyclist had parked and paid the meter, a newcomer arriving at the site might just move the motor cycle somewhere else and occupy the space. As a result, the first motor-cyclist might be treated as not having paid the meter;

- the Transport Department was going to launch a trial scheme in early 2000 in three areas in Hong Kong, Kowloon and the New Territories. Railings would be installed in front of the parking space so that the wheel clamps of motor cycles could be attached to the railings; and

- if on-street motor cycle spaces were to be metered, it might also be necessary to charge such spaces in multi-storey carparks on an hourly basis. Yet, difficulties arose because motor-cyclists sometimes might simply bypass the gate when they drove in and out without paying the charge. To resolve the problem, the Transport Department would launch a trial scheme in 13 multi-storey carparks. Both monthly tickets and an hourly rate system would be used.

24. The **Secretary for Transport** stated that while he had no problem about charging motor cycles, the starting point for charging would be to resolve traffic management problems. If there were no traffic management concerns, the Administration might not have to resort to metering. For instance, sometimes motor cycles might be parked in the corner of a flyover. From a traffic management point of view such a practice did not impede traffic flow. As such, it might not be necessary to meter the spaces.

25. In his letter of 4 January 2000, the **Secretary for Transport** further stated that according to their research, it was not a common practice worldwide to meter on-street parking spaces for motor cycles. He assured the Committee that the Transport Department would continue to actively find ways to address the operational and enforcement difficulties.

26. The **Deputy Secretary for the Treasury** stated that the overall principle that revenue-raising measures should not override traffic management consideration also applied to the charging of motor cycle parking spaces. Hence, in deciding whether or not to meter such spaces, the Administration had to consider the traffic management angle first.

Contract for the management of parking meters

27. Paragraphs 3.15 and 3.16 of the Audit Report revealed that the current contract for the management of all on-street parking meters in the territory was for a period of four years ending in September 2001. The tendering exercise was conducted in mid-1997. Of the three pre-qualified tenderers invited to tender, only one submitted a bid. Audit considered that due to the lack of competition, it was questionable whether the bid submitted was reasonably priced. Against this background, the Committee asked why the other two pre-qualified tenderers did not submit a bid.

28. The **Commissioner for Transport** informed the Committee that:

- after the tendering exercise, the Transport Department had asked the two tenderers the reasons for not submitting a bid and found that they were discouraged by the risks and uncertainties in the contract;

- actually, the Transport Department had along been working towards the objective of removing as many constraints and uncertainties from the contract as possible. In the last tendering exercise, the Department had extended the previous contract by six months to tie in with the award of the electronic parking device (EPD) supply contract. By delaying the commencement of the new contract, the Department made sure that the tenderers had more information which they needed in order to assess the new contract. Because of the uncertainties of the unit cost of an e-park card and the consumption rate, the cost of the card was borne by the Government; and

- in the next tendering exercise, the Transport Department would continue to remove the uncertainties and have them borne by the Government. However, there might still be uncertainties to some extent because at this stage, it was not sure how the EPD system would be developed when other smart cards were built on to it.

29. The Committee noted that Audit had recommended the Commissioner for Transport to carry out a post-tender evaluation on the last tendering exercise. The Committee asked whether this had been carried out and what the outcome was. In reply, the **Principal Transport Officer (Management)** stated that:

- the Transport Department had discussed with the two tenderers the reasons for not submitting a bid. It was found that although the Department had borne some of the risks, there were still a lot of uncertainties in the contract. For example, as the utilisation rate of e-park cards and the timetable for converting all meters to electronic ones were not known at that time, the contractor might have to maintain two teams of staff, one for collection of coins and the other for managing the electronic meters;

- according to the contract, the contractor was to be responsible for publicising the e-park cards and providing e-park card ambassadors to sell the cards at convenience stores, etc. The tenderers were worried that they did not have sufficient staff to take care of the different aspects of the contract; and

- in the next tendering exercise in 2001, apart from removing uncertainties, the Transport Department would try to interest as many parties as possible. It would notify all organisations concerned of the exercise, including consulates and overseas meter manufacturing or supplying companies, with a view to attracting more parties to submit a bid.

30. As regards the Audit's recommendation that consideration be given to splitting the contract into two or three parts, the Committee asked what the Administration's stance was. The **Commissioner for Transport** said that:

- the Transport Department had examined the idea before the current contract was tendered out. The result of the study showed that because of the diseconomy of scale, the cost would far outweigh the benefit. The assessment was that the additional cost to the Government would be about $10 million a year; and

- the Department would re-examine the pros and cons before the next tendering exercise.

Electronic parking devices

31. The Committee noted from the second inset of paragraph 4.20 of the Audit Report that the Transport Department was vigorously pursuing the opening up of the e-park card system to other smart card systems. The Committee enquired what the progress so far was. In response, the **Commissioner for Transport** said that:

- the Transport Department's approach was to introduce the EPDs as the base on which smart card technology could be built. The Department would be commencing a trial in early 2000 with Visa Cash and Mondex to try out their cards in two separate areas;

- the Department was also examining the feasibility of using the Octopus and a trial scheme would be launched in mid-2000. The trial period might last for about six months; and

- it was the Department's objective to complete the trials with the Octopus, Visa Cash and Mondex within 2000 so that by the time the next contract was tendered out, the future was clear. As such, uncertainties in the contract could be removed as far as possible.

32. The Committee further asked about the revenue that could be brought in by the electronic meters and the timetable for adopting new smart card systems. The **Commissioner for Transport** said that :

- the introduction of the EPDs had been extremely successful in protecting Government revenue. The new electronic meters were much more reliable. For instance, in Wanchai, Tsim Sha Tsui and Tsuen Wan, the number of justified complaints about defective meters had been reduced from over 6,000 to under 1,000, which meant that the parking meters were operating more effectively. In addition, the utilisation rate had increased from 60% to 76%. The repair time had decreased from 60 minutes to 45 minutes; and

- for the time being it would be too early to decide what the right route was and the timetable of implementation. In studying the possibility of introducing other types of smart card, the Transport Department would consider both the convenience to the public and the cost to the Government. In particular, the cost of maintaining the existing system would be compared to that of the possible future ones. The Department would draw up some preliminary conclusions about the time-frame of implementation when the trial schemes came to the end.

33. According to paragraph 4.17 of the Audit Report, back in January 1996 the Transport Department had mentioned the feasibility of adopting an open card system with the Electrical and Mechanical Services Department. Then in April 1996, the Transport Department decided to adopt a closed card system. The Committee asked why such a decision was made.

34. **Mr LEUNG Cham-tim, Director of Electrical and Mechanical Services**, stated that:

- at the time the choice was made, the open card technology was not mature; and

- the Administration had all along recognised the growing importance of the open system and the e-park card contractor was required to provide trial schemes to test whether the open card system could be used in the parking meters.

35. Responding to the question why the Administration had opted for the e-park card but not the Octopus, the **Secretary for Transport** stated that:

- the Octopus was not yet available at the time when the Administration put the e-park cards to trial. Even today, in terms of on-street parking, the Octopus technology was not mature; and

- it was still not absolutely sure that the Octopus system could be used for carpark metering. At present, there was a trial at Telford Garden carparks to see how the Octopus could be used in metering multi-storey carparks.

36. In view of the growing popularity of the Octopus, the Committee enquired how the Administration would strike a balance between convenience to the public and the need to avoid the development of a monopolistic situation. The **Secretary for Transport** responded that for the sake of convenience, if smart cards were to be adopted, members of the public would prefer using one or two, instead of a dozen, cards for riding on various types of transports. Hence, the Administration would have to take this into account when deciding whether to allow one or several contractors to provide the service. He admitted that it would not be easy to strike a balance.

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

On-street parking

- note:

  (i) the Secretary for Transport's statement that the policy of metering parking spaces is based on traffic management rather than revenue-raising grounds; and

  (ii) the Deputy Secretary for the Treasury's statements that revenue-raising should not override traffic management considerations, and that the Finance Bureau tends to be sympathetic to funding requests for installing additional meters;

- observe from existing available records that:

  (i) in a submission by the Transport Advisory Committee in 1967, it was stated that the Government's principle of on-street parking, as accepted by the Executive Council (ExCo), was to maintain a 15% availability rate;

  (ii) in 1972, the ExCo accepted the Administration's proposal that the period of charging for metered spaces should be extended to include Sundays and public holidays; and

  (iii) in an ExCo Memorandum in 1981, it was stated that:

    (a) there would be a programme for the extension of meter operations to Sundays and public holidays in 1983-84; and

    (b) it was the Administration's eventual aim to extend metering to all parts of the urban areas and the New Towns where on-street parking could be permitted;

- express concern that the Administration's metering policy, which is predicated on first identifying the need and then exercising control to meet traffic management objectives, may contradict the policy aim stated in the 1981 ExCo Memorandum, which is to extend metering to all parts of the urban areas and the New Towns;

- recommend that the Secretary for Transport clarify the metering policy with ExCo;

- express dissatisfaction that:

  (i) for over 30 years, the policy of maintaining a 15% availability rate has not been fully implemented; and

(ii) for nearly 20 years, the Administration has not conducted comprehensive utilisation surveys to ascertain if there are transport management needs to meter parking spaces in built-up areas;

- recommend that the Commissioner for Transport should:

  (i) conduct periodical utilisation surveys of non-metered parking spaces and metered parking spaces on Sundays and public holidays;

  (ii) consult the relevant District Councils to ascertain whether there is a traffic management need for metering the non-metered parking spaces and extending meter operations to Sundays and public holidays; and

  (iii) having regard to the outcome of the surveys and the District Councils' views, seek funding to install meters for non-metered parking spaces and extend meter operations to Sundays and public holidays for parking spaces which have traffic management justifications and a high utilisation rate;

- note the Commissioner for Transport's statement that motor-cyclists should be charged for the use of on-street parking spaces, but there are operational and enforcement problems;

- urge the Commissioner for Transport to fully evaluate the feasibility of different solutions to the operational and enforcement problems in the light of latest technologies available and consider charging a fee for the use of on-street motor cycle parking spaces with a high utilisation rate;

Contract for the management of parking meters

- express concern that the two-tiered revenue sharing formula used in the contract for the management of parking meters is not effective in preventing the contractor from reaping windfall profits arising from increases in on-street parking charges;

- recommend that the Administration should critically examine the two-tiered revenue sharing formula so as to ensure that the contractor will recover no more than the marginal cost of implementing Government's decision to increase on-street parking charges;

- express concern that due to the uncertainties arising from the conversion to electronic parking device and the contractors' responsibility for promoting and selling e-park cards, there was only one bid for the current contract for the management of parking meters;

- urge the Administration to increase competition and remove the uncertainties in the next tendering exercise, so as to avoid the occurrence of a monopolistic situation which may not be conducive to getting the best value for money, by:

(i) providing objective criteria for evaluating the adoption of various latest technologies in electronic fee collection;

(ii) identifying and removing as many as possible the constraints and uncertainties from the contract; and

(iii) examining the pros and cons of splitting the meter management contract into two or three contracts or parts;

Electronic parking devices

- express concern that $4.1 million could have been saved if electronic parking meters had been installed instead of the pay-and-display machines (PDMs);

- wish to be kept informed of the outcome of the re-examination of the justifications for installing additional PDMs;

- note that the Administration is examining the feasibility of opening up the e-park card system to other smart cards and will conduct a trial with the Octopus by mid-2000;

- recommend that the Administration keep the Legislative Council informed of the various latest technologies available in electronic fee collection and the results of the trials with the Octopus and other smart cards;

Special parking facilities

- note that the traffic management objective of the trial scheme at Sheung Shui, which is to reduce traffic congestion, may not have been achieved;

- express concern that the planned park-and-ride parking facilities at the six new railway stations to be built in the next five years will require considerable land space;

- consider that such facilities, if properly promoted and well-utilised, can produce substantial environmental benefits;

- recommend that the Administration should:

(i) review the park-and-ride trial scheme to ascertain whether, and to what extent, the traffic management objective of reducing traffic congestion in urban areas has been achieved;

(ii) conduct a cost-benefit analysis for park-and-ride facilities taking into account the benefits to the environment as well as the economic cost of the land space used; and

(iii) based on the results of the above review/analysis, reassess the future provision of park-and-ride facilities at the Sheung Shui Railway Station and other railway stations;

- express concern about the high incidence of non-compliance with the Hong Kong Planning Standards and Guidelines (HKPSG); and

- recommend that the Administration should review the need for revising the HKPSG in view of the high incidence of non-compliance cases.

The Committee noted that Audit had conducted a review of the services for students with special educational needs and for preventing student suicide.

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

3. Regarding placement opportunities for mentally handicapped students, the Committee noted from paragraph 2.20 of the Audit Report that resources had been earmarked by the Administration to provide about 3,400 additional day service and residential places for moderately and severely mentally handicapped persons in coming years. In this connection, the Committee asked the Secretary for Health and Welfare:

- whether resources had been committed for providing these additional places;

- the detailed plan for providing the places; and

- the anticipated reduction in waiting time for the services upon provision of the additional places.

4. The Committee were aware that the Director of Audit had recommended that the Director of Education should, inter alia, identify key outcome performance indicators so as to assess the extent of achievement of the objectives of special education, and take positive action to expedite the integration of students with special educational needs into mainstream schools. The Committee enquired about the progress made by the Director of Education in establishing the performance indicators and in extending the integration scheme to 21 schools in 1999-2000 and 40 schools in 2000-2001.

5. The **Secretary for Health and Welfare** responded to the Committee's enquiries in his letter of 14 December 1999 in ***Appendix 14***, and the **Director of Education** responded in her letter of 14 December 1999 in ***Appendix 15***. The Committee took note of the information provided therein.

The Committee noted that Audit had conducted a review of the framework for the administration of allowances in the civil service and of the following allowances:

- the Independent Commission Against Corruption (ICAC) post allowance;

- home-to-office travelling allowance (HOTA);

- mileage allowance;

- furniture and domestic appliances allowance (FDAA);

- dialect allowance;

- overtime allowance (OTA); and

- acting allowance.

Framework for the administration of allowances

2. The Committee noted from paragraph 2.2 of the Audit Report that the Committee on Allowances (COA), set up in August 1977, was responsible for keeping under regular review the incidence and rates of the allowances. Before 1980, the COA held regular meetings to review various allowances. However, in 1980, the COA decided that it should only consider questions of policy on allowances and had not initiated any review of allowances thereafter. Regular formal meetings had been replaced by exchange of correspondence. The Committee queried how, in the circumstances, the Civil Service Bureau (CSB) and the Finance Bureau (FB) could keep the various allowances up-to-date.

3. **Mr LAM Woon-kwong, Secretary for the Civil Service**, responded that:

- because there were other mechanisms for close liaison between the CSB and the FB concerning resources and policies, there was no need to hold intensive discussions in the COA; and

- notwithstanding that no formal meetings had been held by the COA, there had been reviews on allowances. In view of Audit's comments on the COA, the CSB was liaising with the FB about the need to re-activate the mechanism for reviewing allowances.

4. According to paragraph 2.3 of the Audit Report, the Standing Commission on Civil Service Salaries and Conditions of Service (Standing Commission) had performed two reviews on the overall system of job-related allowances in 1986 and 1991. The Committee asked what the contents and results of the two reviews were, and whether the Standing Commission had recommended elimination of any allowances.

5. In reply, **Mr Duncan Pescod, Deputy Secretary for the Civil Service**, stated that:

- the Standing Commission was one of the three committees which advised the Administration on matters affecting civil service pay and conditions of service. The CSB referred to the Standing Commission issues that needed a particular review or advice. The CSB would then follow up the advice. Over the last 10 years, of the 14 exercises on job-related allowances, the Standing Commission had recommended that one allowance be deleted, two allowances be re-classified and others be continued. The recommendations made were subject to the circumstances of particular allowances; and

- in May 1999, the CSB had commissioned the Standing Commission to undertake a comprehensive review of job-related allowances. The review would cover the system to monitor and update various allowances. The review was expected to be completed in mid-2000 and the CSB would definitely take forward the recommendations.

6. At the Committee's request, the **Secretary for the Civil Service**, in his letter of 15 December 1999 in ***Appendix 16***, informed the Committee of the outcome and effectiveness of the Standing Commission's two reviews on job-related allowances. He stated that:

- in the 1983 exercise, the Standing Commission set out the role of the job-related allowances in the civil service, laid down the general principles governing these allowances, and reviewed the rates, categorisation and administration of allowances. The review took two years to complete and the Standing Commission published the results in its Report No. 15 in 1986. The main principles established in the Report for job-related allowances were now still in force; and

- in 1991, the Standing Commission undertook a minor review on the rates, eligibility and categories of job-related allowances. The review confirmed the general validity of the framework for job-related allowances established in its Report No. 15.

7. The Committee were concerned about the lack of a mechanism for reviewing the various allowances on a regular basis. Referring to paragraph 2.10 of the Audit Report, the Committee noted Audit's view that although there was a system for reviews to be undertaken at the operational level by Heads of Department (HODs), they were not in the best position to review whether an allowance was justified at the policy level. The Committee shared Audit's comment and considered that as HODs were also entitled to some of the allowances, it might not be appropriate for them to review the allowances due to conflict of interest. Moreover, they might give unduly heavy weight to staff morale and might not want to arouse discontent of their own staff. In the circumstances, the Committee asked whether the CSB had considered not allowing HODs to conduct such reviews.

8. Responding to the Committee's concern, the **Secretary for the Civil Service** stated that:

- the CSB had devolved the responsibility for reviewing individual allowances to HODs so that, according to the operational needs of their own departments, they could assess whether certain allowances should continue. Even if there was justification to continue the allowances, HODs could evaluate whether the allowances should continue to be disbursed to such a number of staff within their departments. If HODs discovered that there were certain allowances which were no longer necessary or they felt that such allowances were not adequate for attracting people to their departments, they could advise the CSB;

- from time to time, the CSB did take the initiative in reviewing different allowances. As an example, back in 1992, the CSB had already identified the ICAC post allowance as outdated. Therefore, the whole process was an interactive one;

- even when the CSB had made a decision, it would not implement it unilaterally. It would invite the Standing Commission to examine the issue because the Standing Commission was regarded as a third party and would be able to give independent comment on the CSB's decision; and

- the CSB would consider whether the regular review should be conducted by HODs or by the CSB on a more frequent basis, taking into account Audit's comments.

9. The **Deputy Secretary for the Civil Service** stated that:

- the reviews of policy were performed by the CSB with the advice of the Standing Commission and the Standing Committee on Disciplined Services Salaries and Conditions of Service (Standing Committee), not by the HODs. This was an important control to ensure that there was no conflict of interest. HODs were only requested to review the operational need for the various allowances, which did change from time to time; and

- directorate officers were not entitled to most of the allowances, one example being the ICAC post allowance. Thus, there was no conflict of interest in asking HODs to undertake reviews at the operational level. Nevertheless, if a HOD felt uncomfortable conducting a particular review, he could refer that back to the CSB and the CSB would find other ways to conduct the review.

10. At the Committee's invitation, **Mr Dominic CHAN Yin-tat, Director of Audit**, responded that:

- he shared the view of the CSB that it was a good practice for a party outside the civil service structure to conduct the reviews on allowances; and

- it was preferable to have the Standing Commission/Standing Committee and the CSB reviewing the allowances in conjunction, rather than to have only one party performing the review.

11. The Committee noted from the Audit Report that sometimes HODs might have reservations about withdrawing or altering certain allowances because they did not want to adversely affect staff morale. The Committee enquired whether the CSB had laid down any criteria for measuring staff morale and the weight the CSB should give to the importance of staff morale.

12. The **Deputy Secretary for the Civil Service** informed the Committee that:

- there were clear guidelines available for HODs when they were requested to examine the continuing need for a particular allowance. The guidelines were set out in the regulations governing individual allowances, which HODs had to follow when conducting their reviews;

- as for staff morale, that was a judgement that HODs had to take. The CSB could not impose the criteria centrally because HODs had to take into account their operational need. Where the CSB considered that the HODs were not firm enough, the CSB would step in and discuss with the HODs concerned to obtain an understanding as to why they considered the issue of staff morale to be overriding;

- the weight that should be given to the importance of staff morale could not be specified. It depended on the circumstances. In one department staff morale might be an important issue while in another department, staff retention and motivation might be the issue; and

- there were a number of ways to deal with the issue of staff morale. For example, counselling service was available. As for job-related allowances, such as typhoon duty allowance and black rainstorm duty allowance, they were specific to the particular situation that a department had to face.

"Non-deprivation of existing benefits"

13. According to the third inset of paragraph 2.17 of the Audit Report, there were legal constraints on the CSB in withdrawing existing benefits from serving civil servants. The Committee asked:

- whether the principle of "non-deprivation of existing benefits" could be changed and the legal implications; and

- whether the CSB had sought legal advice on the issue.

14. The **Secretary for the Civil Service** explained that:

- there were two categories of allowances, namely fringe benefits and job-related allowances. Fringe benefits, though might be provided in the form of allowances, were offered to eligible officers as part of their terms of appointment. In other words, these were contractual provisions. Examples were housing allowance and education allowance;

- job-related allowances, such as typhoon allowance, dangerous duties allowance, overtime allowance and acting allowance, did not constitute part of the contract of employment. This category of allowances was not safeguarded by law and its continuation would depend on the needs;

- all through the years the Administration had respected the contractual provisions concerning allowances. However, it did not mean that they could not be changed. For instance, there was a major change to the housing allowance about 10 years ago. The provision of quarters was eventually changed to the home finance allowance, etc. The representatives of the staff councils had been consulted and their agreement to the changes obtained. Another example was the overseas education allowance, which was deleted several years ago; and

- because the Administration respected contractual provisions, changes to fringe benefits were only applicable to new recruits. Whenever the CSB carried out a review or made changes to fringe benefits, it would seek legal advice. Regarding the legal implications of making unilateral changes, that was hypothetical because throughout the years, the Administration had not tried to do that.

15. In the light of the Secretary for the Civil Service's response, the Committee asked whether there were legal constraints on abolishing job-related allowances and whether the principle of 'non-deprivation of existing benefits" applied to such allowances. The **Deputy Secretary for the Civil Service** said that:

- the principle applied primarily to allowances which were contractually obligated but not job-related allowances. Job-related allowances could be stopped and changed subject to the need. When a job-related allowance was abolished, every person who was previously qualified to receive the allowance would no longer be qualified. There were precedents where the Administration had removed such allowances from staff. In 1992, the extraneous duties allowance (supplementary duty level 1) was abolished; and

- as circumstances changed within a department, even though an allowance might remain extant, the beneficiaries might change. Hence, there was no restriction on the Administration's ability to change the job-related allowances.

16. Responding to the Committee's question, the **Deputy Secretary for the Civil Service** confirmed that out of the seven allowances reviewed by Audit, only the furniture and domestic appliances allowance was regarded as a fringe benefit. The rest were all job-related allowances.

17. On the question of the Administration's power to alter the conditions of service of the civil service, the Committee noted from paragraph 2.12 of the Audit Report that the memorandum on conditions of service (MOCS) stated that the Government had the right to modify the terms of appointment and conditions of service. It thus appeared that there were legal grounds on the basis of which the Government could modify contractual provisions. The Committee asked about the Administration's stance on the issue and whether it was a golden rule that certain benefits, even though they were outmoded, could not be changed without the consent of the staff side.

18. The **Secretary for the Civil Service** stated that:

- according to the MOCS, the Government as the employer did have great power. However, the reality was that the CSB could not consider the matter solely from a purely legal point of view. As a good employer, the Government did not want to arbitrarily and unilaterally alter any contractual benefits without first obtaining the staff's consent. In the Government's perspective, when the Government first employed the staff, it had informed them that they could enjoy certain fringe benefits. Such benefits were therefore contractual obligations that an employer should honour;

- other factors that had to be considered included staff morale, the HOD's ability to handle staff morale if such benefits were withdrawn, public opinion concerning the unilateral withdrawal of such benefits and the response of Legislative Council Members to such a move by the CSB, etc. Thus, when the CSB reviewed fringe benefits, it was inclined to be more generous to the staff;

- it was difficult to comment whether there would be legal problems if the CSB was to withdraw a fringe benefit. It would be up to the court to decide whether by so doing, the Government was in breach of the contract; and

- nevertheless, the Administration did agree that it had to strike a balance between being a good employer and its accountability for public expenditure. When the Administration reviewed civil service benefits, it would first consider whether the staff side would accept the changes before putting forward the proposals.

19. The Committee enquired whether there were any documents setting out what constituted fringe benefits and which provision in the MOCS empowered the Government to change the conditions of service. In his letter of 15 December 1999 in ***Appendix 16***, the **Secretary for the Civil Service** provided the Committee with the requisite information. He stated that:

- the terms of appointment and conditions of service of civil servants were set out in a MOCS attached to the appointment letter when an appointment was made. The MOCS set out the details of the employment conditions and the remuneration package provided to the recruit. It served as an employment agreement between the Government and the employee. The recruit was offered the benefits as detailed in the relevant sections of the MOCS when he accepted the appointment;

- the MOCS did not contain any separate section on job-related allowances because such allowances were only provided on grounds of operational need and were not granted as an entitlement to individual civil servants. Provisions on eligibility and payment of these allowances were set out in the Civil Service Regulations, CSB circulars and departmental guidelines; and

- there was a standard clause in the MOCS stating that the Government reserved the right to alter any of the terms of appointment or conditions of service of an officer as set out in the MOCS when the Government considered this to be necessary.

20. As to the Committee's question on case law relating to alteration of terms and conditions of employment by the Government, the **Secretary for the Civil Service** stated in his letter of 15 December 1999 that:

- in the court case of LAM Yuk-ming & Others, the court held that as the initial terms of service made it clear to the public officer that such a power was reserved to the Government, the terms of the contract between the Government and its public servants was capable of unilateral variation;

- despite the above case and the legal power set out in the MOCS, the Government had always observed the convention that being a responsible employer, it was not appropriate to unilaterally withdraw existing benefits from serving civil servants. The staff had legitimate expectation that the terms of the MOCS would be enforced;

- even though from the private law point of view, unilateral variation of the conditions of service by the Government was permissible, civil servants had a legitimate expectation and a right in public law to be consulted and to make representations before a decision was made; and

- it had been the Government's long-standing practice to consult the staff side before making significant variations to their terms of employment. The case of the Council of Civil Service Unions v Minister for the Civil Service emphasized the importance of staff consultation.

21. In the same letter, the **Secretary for the Civil Service** described the established procedure of staff consultation in the civil service. He said that:

- the Government undertook in the 1968 Agreement signed between the Hong Kong Government and the main staff associations that the Government should not make any significant change to the conditions of service which affected a substantial part of the service as a whole, or of the members of one or more of the main staff associations, without prior consultation with the appropriate associations;

- if agreement could not be reached after the consultation, the dispute might be referred to an independent Committee of Inquiry appointed by the Chief Executive for investigation. A Committee of Inquiry was last called in in 1988 when there was a dispute between the Government and staff over the 1988 pay adjustment. The Committee made a number of recommendation in 1989 on revising the civil service pay determination system and the Government accepted most of them. The Administration had strictly observed this consultation mechanism for more than three decades; and

- it was in this light that the Administration's practice of applying changes to conditions of service only for new recruits had evolved. When practicable, the Administration made these changes available as an option for serving staff such that those who found the new conditions agreeable might opt for them. In this way, the Government was not acting arbitrarily against legitimate staff interests.

22. Referring to the Committee of Inquiry, the Committee asked whether its recommendations were binding on both the Government and the staff side. In his letter of 24 December 1999 in ***Appendix 17***, the **Secretary for the Civil Service** informed the Committee that:

- according to the 1968 Agreement, the Committee of Inquiry would submit its recommendations to the Chief Executive (the then Governor). The recommendations would be binding on the Government and the staff associations provided they were acceptable to both parties. The Committee of Inquiry might also make reference to the Chief Executive -in-Council and/or the Legislative Council on the need for further consultation with the staff side; and

- the system of appointing a Committee of Inquiry to arbitrate provided for a fair and impartial mechanism to resolve disputes between the Government and the staff side. The Government would accept the Committee of Inquiry's recommendations where practicable.

23. On the principle of "non-deprivation of existing benefits", the Committee asked whether that was simply a convention or an established policy which had been endorsed by the Executive Council (ExCo) or the COA. The **Secretary for the Civil Service**, in his letter of 13 January 2000 in ***Appendix 18***, informed the Committee that:

- the COA had not considered the principle of "non-deprivation of existing benefits". The COA was charged with the responsibility for reviewing the incidence and rates of job-related allowances only. The issue of withdrawal of existing benefits applied to those fringe benefits and related allowances which were covered by the MOCS. Reviewing the provision of fringe benefits to civil servants did not fall within the purview of the COA; and

- when the Administration introduced any changes to conditions of service, it usually made the changes available as an option for serving staff. It did not compel the staff to accept the changes without their consent. The arrangements in each case were set out clearly in the relevant submission when policy approval from the ExCo was sought.

ICAC post allowance

24. The Committee noted from paragraph 3.11 of the Audit Report that since 1989-90, the ICAC had not experienced recruitment and retention difficulties. Thus, Audit considered that it was questionable whether the continued payment of the ICAC post allowance was justified. The Committee asked why the Commissioner, ICAC, as recorded in the Audit Report, considered that the allowance was not outdated in present-day circumstances.

25. **Mr Alan LAI Nin, Commissioner, ICAC**, said that:

- the considerations for the introduction of the ICAC post allowance in 1974 were still relevant today, although the weighting had changed as the monetary values of the allowance had reduced over the years. Nowadays, ICAC officers still found themselves kept at arm's length by other people. Moreover, the allowance served as a symbol of the Government's recognition of the contribution and importance of ICAC officers; and

- any attempt to abolish the allowance would create a feeling in the officers that their efforts were no longer recognized and staff morale would be damaged as a result. If the allowance was to be withdrawn, some staff might even think that their conditions of service were changed and might resort to litigation.

26. In the light of the response of the Commissioner, ICAC, the Committee considered that over the years, what was originally an allowance had become a fringe benefit in the eyes of the staff. At the Committee's invitation, the **Deputy Secretary for the Civil Service** confirmed that the ICAC post allowance was a job-related allowance, not a fringe benefit. It would be covered in the review of job-related allowances by the Standing Committee.

27. Given that ICAC staff perceived the ICAC post allowance as part of their conditions of service, the Committee asked whether the ICAC would rationalise the arrangement and include the allowance as part of the remuneration package of ICAC staff. The **Commissioner, ICAC** said that he would consider this carefully in the course of the review.

28. The Committee referred to paragraph 3.10 of the Audit Report which revealed that in 1996, the ICAC recruited 76 Assistant Investigators from over 1,800 applicants. In 1997, 66 Assistant Investigators were selected from over 2,100 applicants. The good response suggested that the job was very popular. The Committee queried why the ICAC claimed that the jobs were obnoxious where nobody would like to take up. The **Commissioner, ICAC** stated that the figures were relative. Compared to jobs in other departments, the number of applicants for those jobs might even be greater.

29. The Committee further asked whether the ICAC staff had been consulted on the proposed abolition of the ICAC post allowance and whether they were really concerned about withdrawing the allowance, which was of small monetary value. The **Commissioner, ICAC** said that:

- he understood that the CSB was carrying out a review on the allowance and he did not want to create public opinion. The staff associations would be consulted in the course of the review; and

- in the last review by the CSB, the views of the management had been gauged.

30. To understand whether the work nature of the ICAC was unpopular and if the ICAC had any recruitment difficulties, the Committee asked how the education qualifications of the new entrants compared to those of the entrants several years ago. The **Commissioner, ICAC** said that, similar to other disciplined services, in recent years the ICAC was able to recruit people with university qualifications to take up posts at lower ranks. The ICAC would not hire people who were not up to the standard.

31. The Committee asked what actions the CSB would take to enhance the esteem of ICAC staff so that a proper weight would be given to the importance of the allowance. In reply, the **Secretary for the Civil Service** stated that:

- to enhance staff esteem, the CSB's focus was on human resource management. It was hoped that staff morale could be enhanced through improved communication, management methods and in-house training, etc.; and

- staff morale, however, was also affected by some external factors beyond the Administration's control, such as the public opinion on the performance of civil servants.

Home-to-office travelling allowance

32. Referring to paragraph 4.18 of Audit Report, the Committee noted that the Administration was aware of the need to review the HOTA as early as 1975 and had set the long-term objective of moving towards its abolition. In addition, in paragraph 4.11 of the Report, Audit considered that the HOTA had become outdated. Against this background, the Committee enquired whether the CSB agreed with the Audit's comment and whether there was a plan to delete the allowance.

33. The **Deputy Secretary for the Civil Service** stated that:

- the CSB had no dispute with the Audit's rationale and comment. The CSB had completed a review on the HOTA and would shortly put forward proposals to the Legislative Council for abolishing the allowance and replacing it with a new arrangement, taking into account the need to compensate officers who were posted to remote offices;

- the CSB considered that it was still necessary to provide some form of compensation for officers who were required to travel long distances to their place of work because, unlike the private sector where most employees were employed to work within a defined location, civil servants could be deployed anywhere within the territory. Therefore, there was a need to compensate them for the expense beyond the normal level of travel costs; and

- under the new arrangement, there would be a list of designated remote locations including such places as the border area, some outlying islands and remote locations within Sai Kung. There would also be a regular review mechanism to ensure that the list was updated on a regular basis and the allowances were kept within reasonable levels. The allowances would be adjusted according to Consumer Price Index (A) so that the allowances would be kept in step with the costs.

34. The Committee were concerned about the possible staff reaction to the proposed abolition of the HOTA and asked:

- whether the staff unions had been consulted; and

- whether the Administration would try to post civil servants to offices close to their residence so as to avoid long home-to-office journeys.

35. The **Deputy Secretary for the Civil Service** stated that:

- the staff unions had been consulted and they had accepted the proposal. In fact, during the course of consultation, the proposals had been modified slightly to accommodate some of the unions' concerns. The Standing Commission had also been consulted and the Standing Committee was being consulted. It was expected that the new package would be acceptable to all parties concerned; and

- as for postings, there were a large number of officers who had to work on the border, including immigration officers, customs officers and police officers. While the Administration gave due regard to the need to avoid long home-to-office journeys, that was not an overriding consideration. It was possible that during the course of an officer's career he might be working near where he lived, then he might be posted to another location within two or three years.

36. The Committee understood that since its introduction, the HOTA had been reviewed in 1975, 1984 and 1992. However, as revealed by paragraph 4.18 of the Audit Report, throughout the years reaction of the staff side had been the major obstacle to revising the terms of the HOTA. Noting that the staff unions had agreed to the new package after consultation, the Committee enquired whether the Administration had gone through the formal consultation procedure in the past reviews before concluding that there would likely be very strong reaction from the staff if the HOTA was abolished.

37. The **Deputy Secretary for the Civil Service** stated that the circumstances in 1999 were sufficiently different from those in 1975, 1984 and 1992. Hence, the consultation exercises should be perceived in context.

38. In his letter of 24 December 1999 in ***Appendix 17***, the **Secretary for the Civil Service** provided the details of the three reviews of the HOTA as follows:

- the 1975 working party focused on ways to economise on payment of the home-to-office-mileage allowance (HOMA). It also considered the option of abolishing the payment of home-to-office travelling expenses (HOTE) but recognised that many outlying offices remained inadequately served by public transport. The Administration in the end formally consulted the staff sides of its intention to tighten up the payment of the HOTE. The no-claim limit was subsequently raised although not without staff objection. Abolition of the HOTE was considered as a long-term objective;

- after reviewing the subject again in 1984, the Administration maintained that the abolition of the HOTE should remain as a long-term objective. Proposals were then formally put forward to the staff side again to tighten up the payment of the HOTE. These included the exclusion of Tsuen Wan, Kwai Chung and Shatin from eligible areas for claiming the traveling allowance but the proposal was finally dropped due to strong objection from the staff side. Nevertheless, a revised method on adjusting the no-claim limit with reference to prevailing bus fares was agreed; and

- in 1992, the Administration conducted its third review aiming again at excluding Tsuen Wan, Kwai Chung and Shatin from the areas for payment of the HOTE. Major departments with the largest expenditure on the HOTE/HOMA (namely, Fire Services Department, Regional Services Department, Agriculture and Fisheries department, Department of Health, Hospital Services Department and Royal Hong Kong Police Force) were asked to gauge the staff reaction to the proposal. The advice received was that staff would object strongly to the proposal and that there would be serious posting problems. In view of the adverse implications, the Administration considered it not opportune to pursue the proposal.

Mileage allowance

39. The Committee asked for the CSB's comment on Audit's view recorded in paragraph 5.18 of the Audit Report that there were over-generous incentive elements in the existing formula for determining the rates of mileage allowance.

40. The **Deputy Secretary for the Civil Service** said that:

- the CSB did not consider that the provision of mileage allowance had too much of an incentive side. The Administration's objective was to provide fair recompense for officers who used their private cars for duty purposes;

- under the Civil Service Regulations, officers had to obtain approval before they could use their private cars for duty journeys and they must demonstrate that they had actually used their cars for duty purposes; and

- in some cases, efficiency was indeed enhanced and public expenditure saved when an officer used his car for accessing a remote location because there was no need to tie up a government vehicle and driver.

41. At the Committee's invitation, the **Director of Audit** clarified that he did not consider the entire mileage allowance to be over-generous. For example, fuel cost, being the direct cost incurred by an officer in using his car for duty journeys, should be reimbursed. However, reimbursing the maintenance cost and the fixed cost was over-generous.

42. The Committee noted from paragraph 5.19(f) of the Audit Report that there would be a review on the mileage allowance and enquired what the progress so far was. The **Deputy Secretary for the Civil Service** replied that:

- the CSB would undertake a review on the provision of duty mileage allowance, including the payment formula, to make sure that it was up-to-date and reasonable; and

- at present, the review had not yet commenced. Once commenced, he expected that it would take between four to six months to complete. The staff side would be consulted once a proposal was drawn up.

Furniture and domestic appliances allowance

43. Regarding the FDAA, the Committee noted from paragraph 6.5 of the Audit Report that the CSB held the view that the FDAA was part of the conditions of service which could not be withdrawn from serving officers unless they were willing to forgo such benefits. The Committee enquired when the FDAA first appeared as a condition of service of the civil service.

44. In his letter of 24 December 1999 in ***Appendix 17***, the **Secretary for the Civil Service** informed the Committee of the origin of the FDAA. It was stated that:

- the FDAA was payable in lieu of the supply of furniture and domestic appliances (FDA) to staff eligible for quarters. The origin of the supply of FDA dated back to the 1950s. At the time, it was determined that the rent paid by officers for their quarters included charges for quarters, furniture and refrigerators. Therefore, officers who were provided with quarters were also entitled to the provision of FDA by the Government. In those days, if an officer did not draw any furniture item, $25 would be deducted from his monthly rent. If no refrigerator was supplied, $5 would be deducted. The rent deduction was later transformed into allowances (i.e. the FDAA); and

- the origin and development of the FDAA could be traced back to the then Colonial Secretary's memo of 20 October 1955, an extract from a Finance Committee paper of 10 August 1960 and Establishment Regulation 862 in 1964.

45. According to paragraph 6.4 of the Audit Report, when the Home Purchase Scheme (HPS) was introduced in 1981, officers (on or above the old Master Pay Scale Point 38) receiving assistance under the HPS would be eligible for the FDAA. Paragraphs 6.5 to 6.7 revealed that since 1982, the FB had queried whether HPS beneficiaries should be eligible for the FDAA. In February 1988, the CSB finally agreed to abolish the FDAA for officers joining the HPS on or after 1 October 1990. In this connection, the Committee asked about the CSB's rationale for changing the eligibility criterion for the FDAA in 1990 but not earlier.

46. The **Deputy Secretary for the Civil Service** said that:

- in 1981, the issue was not examined thoroughly. Consideration was not given to the withdrawal of the FDAA at that time; and

- in 1989, the CSB introduced major changes to housing-related benefits and a completely different set of housing benefits was put in place, including the home finance allowance, the accommodations allowance and a modified HPS. At that time, the CSB did consider the question of whether or not it should make consequential changes to housing-related benefits, including the FDAA.

47. Referring to paragraph 6.13 of the Audit Report, the Committee acknowledged that the Secretary for the Civil Service agreed that the justifications for allowing HPS beneficiaries to draw the FDAA should be re-examined. The Committee enquired what the outcome was. The **Deputy Secretary for the Civil Service** stated that the CSB had consulted the staff and obtained their agreement to the cessation of the FDAA. The cessation had already been effected on new recruits appointed on or after 1 May 1999. The Committee noted that serving officers were still entitled to the FDAA. According to paragraph 6.10 of the Audit Report, as at 31 December 1998, there were 2,347 HPS beneficiaries drawing the FDAA.

Dialect allowance

48. According to paragraph 7.20 of the Audit Report, the average cost of obtaining dialect interpretation service by the payment of dialect allowance was $4,952 per hour. In contrast, the hourly rate for part-time interpreters was only $204. The Committee asked why there was such a great differential.

49. **Mr LEE Lap-sun, Commissioner for Official Languages**, explained that:

- the average cost was high because in 1998 only about 210 hours of dialect interpretation work had been performed, whereas dialect allowance of about $1.04 million had been paid to the officers. In other words, having claimed the dialect allowance, the claimants performed dialect interpretation very infrequently; and

- he agreed that there was a need to review the arrangement. As the demand for dialect interpretation was small, he would consider the termination of payment of the dialect allowance for the dialects in question, except Putonghua.

50. With reference to paragraph 7.18 of the Audit Report, the Committee noted that the Government announced in 1995 its aim to make the civil service biliterate and trilingual. As such, the Committee asked whether the Administration would consider excluding Putonghua as a dialect qualifying for an allowance.

51. The **Commissioner for Official Languages** stated that:

- at present, there were not a large number of Chinese Language Officers (CLOs) who were proficient in Putonghua. The policy of developing a biliterate and trilingual civil service had only been introduced for a short period of time. When the staff in the Putonghua interpretation pool were recruited, Putonghua was not an entry requirement. They started to undergo training in Putonghua after they were recruited and expected some financial recognition for providing such an additional service; and

- new recruits in the CLO grade were required to possess a certain level of proficiency in Putonghua. However, it was still questionable whether they could reach the level of proficiency required for interpretation duties. Hence, the Official Languages Agency (OLA) could cease the payment of Putonghua dialect allowance only when the civil service had really become biliterate and trilingual.

52. On the question of part-time interpreters, the Committee asked whether such interpreters could be used more frequently so as to reduce cost.

53. **Mr Wilfred TSUI Chi-keung, Judiciary Administrator**, stated that:

- most lower courts were already using part-time dialect-Cantonese interpreters; and

- it would not be feasible to use part-time interpreters for complicated litigation conducted in English because interpretation from one language to another was difficult. The qualifications of the part-time interpreters currently on the Judiciary's register would not be high enough to perform the job.

54. The **Commissioner for Official Languages** stated that:

- the OLA seldom used part-time interpreters, apart from part-time simultaneous interpreters who belonged to another grade; and

- as for Putonghua interpretation, the OLA deployed full-time staff to provide the service. There was a Putonghua Interpretation Section with seven interpreters to provide high-standard service. They had to accompany delegations to the Mainland and might deal with confidential matters. Hence, it was not appropriate to use outside part-time staff.

55. The Committee noted that the OLA kept detailed record of the number of hours which CLOs spent on interpretation work and hence should be well aware that the dialect allowance claimants had not performed the interpretation duty frequently. The Committee queried why the OLA had not taken the initiative to review the situation.

56. The **Commissioner for Official Languages** said that:

- the OLA realised that from 1989 to 1998, there had been a considerable demand for Putonghua. Starting from 1996, the demand for the other dialects had been reduced very substantially; and

- actually, before the issue of the Audit Report, the OLA had discussed the issue with the CSB. He had also raised the problem with his staff.

57. The **Director of Audit** commented that the question was whether the discussion had any outcome.

58. On the keeping of statistics, the **Judiciary Administrator** said that in the past, the Judiciary did not keep record of the number of hours spent on interpretation duties by court interpreters. He accepted that dialect allowance should only be given on a value-for-money basis. In future, statistics on the interpretation duties would be kept.

59. Referring to paragraph 7.8 of the Audit Report, the Committee asked whether the CSB had formally consulted the staff on the proposal of replacing the dialect allowance with a bonus scheme before deciding not to implement it. The **Deputy Secretary for the Civil Service** confirmed that the suggestion had been discussed by the Senior Civil Service Council. The staff side's reaction was not positive. Thus, the proposal was dropped.

60. The Committee further asked about the progress in rationalising the payment of dialect allowance. The **Deputy Secretary for the Civil Service** stated that the CSB had reached agreement-in-principle with the heads of grade over the payment arrangements. The staff side would be consulted.

Overtime allowance

61. The Committee noted from paragraph 8.11 and Table 14 of the Audit Report that the Post Office ranked consistently as the topmost department, in terms of the total payments of OTA and Disciplined Services Overtime Allowance (DSOA) to staff expressed as a percentage of total departmental salary payments. From 1994-95 to 1998-99, the percentage was consistently over 30%. In 1997-98, it even reached 41.5%. In this connection, the Committee asked:

- whether the high level of overtime payment indicated problems in staffing arrangement; and

- what actions had been taken to rectify the situation and what the results were.

62. **Mr LUK Ping-chuen, Postmaster General**, informed the Committee that:

- there was a historical background to the high level of overtime payment in the Post Office. Before August 1995, the Post Office was a government department and had to bid for resources from central allocation. When the bids for permanent posts were unsuccessful, apart from employing temporary staff, existing staff would have to work overtime; and

- the volume of mail was beyond the Post Office's control. Overtime work was an effective means to respond to increased workload expeditiously.

63. Regarding improvement measures, the **Postmaster General** stated that:

- the modus operandi of the Post Office had been reviewed in 1997. Starting from November 1997, overnight sorting of mail was performed in the headquarters so that the performance pledge of delivering local mail on the next day of mailing could be fulfilled. At the same time, machines were used to improve efficiency and reduce OTA. The trial was successful and the arrangement had been extended to the International Mail Centre and the Kowloon Central Post Office;

- some services had been contracted out, including using non-government vehicles to transport mail and the packaging work in the philatelic section;

- a work standards survey had commenced last year to review the delivery route details with a view to evening out the workload. The first phase had been implemented in October 1999 and another three reviews would be carried out. In addition, the Department's productivity index was being reviewed with a view to reflecting correctly the productivity of the Department as well as that of the district and branch offices;

- certain divisions of the Post Office had been merged to save manpower. For example, speed post and parcel delivery had been merged. As for manning scale of the counters, 16 branch offices had been reviewed and the manning ratio reduced. A review on the deployment of drivers had also been conducted; and

- with the completion of these reviews, it was hoped that productivity could be increased and overtime work reduced. So far the achievements had been satisfactory. Staff response was favourable. The productivity in the second quarter of 1999 had increased by 12% comparing with that of the corresponding period last year.

64. The Committee noted the CSB's comment in paragraph 8.12 of the Audit Report that it was not readily clear why so much of the overtime work could not be undertaken by other means, such as bidding for new staff, introducing shift duties, reshuffling duties, or employing non-civil service contract staff to cover short-term job requirements. In paragraph 8.13, it was also stated that the CSB was considering the way forward for administering overtime work. The Committee enquired what progress had been made.

65. The **Deputy Secretary for the Civil Service** informed the Committee that:

- over the last few years the CSB had tried to ensure that departments did curtail the use of overtime. To this end, a number of measures had been taken. In 1998, circulars were issued to remind HODs of the need to properly control the use of overtime and that overtime work should first be compensated by time-off-in-lieu;

- the CSB had been discussing with the departments which had the largest payments of OTA, namely the Post Office, the Housing Department and the Water Supplies Department to ascertain the reasons for the large volume of overtime work and to work out ways of improvement. Proposals included restructuring of work arrangements, introduction of shifts and outsourcing to the private sector. Recently, the CSB had offered assistance by deploying additional staff to the departments if they did not have sufficient resources; and

- notwithstanding the CSB's efforts in reducing overtime work, the overtime requirement for a particular department was dictated by operational need. For instance, if there was an emergency situation where staff had to be activated overnight at short notice to work beyond their normal working hours, the HOD must have the flexibility to make the decision. The CSB could not centrally make and impose a decision on the department.

66. The **Postmaster General** stated that:

- as a trading fund department, the Post Office was very cautious about the cost implications of permanent staff. If the cost was high, there would be pressure on the Department's fees and charges. Notwithstanding that, the Post Office did try to create permanent posts. However, if the Department was to absorb all overtime work by permanent staff, over 2,000 posts would be required. Hence, instead of pursuing this route, the Department engaged non-civil service contract staff and temporary workers to cover some of the overtime work;

- the work hours of temporary staff had steadily increased over the years. In 1994-95, they accounted for 5.66% of the total work hours. In 1998-99, they accounted for 9.44%. At present, there were more than 1,000 temporary and non-civil service contract staff in the Department, compared to about 6,000 permanent staff. However, there was problem with using non-civil service contract staff. As their turnover rate was high, the Department encountered difficulties in terms of training; and

- as regards shifts, the arrangement had all along been adopted in the Post Office. There had been two shifts and the overnight sorting work was the third shift. During this shift, only the supervisory staff were permanent staff whereas the operational staff were all non-civil service contract staff.

67. Referring to the Postmaster General's remark that a number of measures had been taken to reduce overtime work in the Post Office, the Committee queried why, according to Table 14 of the Audit Report, the percentage of OTA to total departmental salary payments in 1998-99 was higher than that in 1994-95.

68. The **Postmaster General** stated that:

- the exceptional increase in overtime hours in 1996-97 and 1997-98 was due to the philatelic boom. Extra staff had to be deployed to maintain order in the sale of stamps. The figure had already dropped in 1998-99 and would further decrease in 1999-00; and

- in 1994-95 before the Post Office had changed to a trading fund, it was not able to create the necessary number of permanent posts.

69. At the request of the Committee, the **Deputy Secretary for the Civil Service** undertook to provide the Committee with information on whether the Post Office had bid for new staff since 1994-95 and the outcome of their biddings. In his letter of 24 December 1999 in ***Appendix 17***, the **Secretary for the Civil Service** provided the Committee with the outcome of the biddings for new staff by the Post Office since 1994-95, as follows:

	1994-95	1995-96	1996-97	1997-98	1998-99
Posts bid under the government resource allocation exercise	394	-	-	-	-
Posts proposed in the Post Office Business and Corporate Plans	-	210	210	199	233
Posts approved	168	210	210	199	233

70. On the question of bidding for additional staff, **Mrs Carrie LAM CHENG Yuet-ngor, Deputy Secretary for the Treasury**, stated that:

- every year most departments would apply for additional staff under the resource allocation exercise. Prior to becoming a trading fund department, the Post Office did request additional staff. At the same time, starting from 1990, the Post Office claimed a substantial amount of resources for OTA every year. In other words, it had been the practice of the Post Office to use overtime work to cope with increased workload; and

- the FB hoped that, with limited resources, departments would try to use alternative means to make the best use of resources. For instance, the Police had also bid for additional resources in the annual resource allocation exercise. Failing that, the Commissioner for Police, within the existing establishment, had deployed resources more flexibly and achieved a very substantial reduction in the DSOA in recent years.

71. The **Deputy Secretary for the Civil Service** shared the view of the Deputy Secretary for the Treasury. He stated that even if departments were unsuccessful in securing additional resources, there were always ways to review the operational procedures and achieve reduction in OTA.

72. The Committee noted from paragraph 8.5 of the Audit Report that from 1994 to 1996, the ICAC received about 600 complaints concerning malpractices in staff administration in the civil service, including falsifying attendance records, undertaking outside work during official duty hours and fraudulent claims of OTA and DSOA. In this connection, the Committee asked:

- how the Administration addressed the concerns raised by the ICAC; and

- the number of civil servants who were disciplined as a result of the ICAC investigations.

73. The **Deputy Secretary for the Civil Service** responded that:

- the CSB had been working closely with the ICAC to ensure that the excessive use of overtime work would not become a habitual practice of the departments; and

- the CSB issued a circular in 1998 to share among all departments the experience that the ICAC had gained in its investigations into the complaints.

74. In his letter of 24 December 1999 in ***Appendix 17***, the **Secretary for the Civil Service** provided the outcome of the ICAC investigations, as follows:

Nature of offence	Total number of officers given formal punishment
Unauthorised absence	597
Fraudulent claim of OTA/DSOA	133
Falsification of attendance records	451
Total	1,181

75. According to paragraph 8.8 of the Audit Report, in 1997, in response to a request of Legislative Council Panel on Public Service, the CSB commenced a survey on OTA. The Committee asked why the Administration only conducted reviews on overtime payments after queries had been raised by the ICAC and the Legislative Council.

76. **Miss Denise YUE Chung-yee, Secretary for the Treasury**, stated that:

- from the FB's point of view, the initiative for controlling overtime expenditure had to be from the controlling officers. The FB's responsibility was to consider the allocation of resources in a comprehensive manner to decide the amount of OTA that should be allocated to a particular department. The FB was too removed from departmental operations to judge what should be the appropriate level of OTA for individual departments;

- under the current practice, when the FB realised that the OTA expenditure of a particular department was excessive, it would refer the matter to the CSB and the relevant controlling officer. It was believed that the CSB and the relevant controlling officer would be able to introduce appropriate changes; and

- starting from 1999-2000, the FB had stipulated that a controlling officer could not apply for additional funding in the same financial year if he failed to control the OTA.

77. The **Deputy Secretary for the Civil Service** stated that the FB did draw to the CSB's attention problems that it detected and the CSB would follow up with the relevant departments. When the CSB approached the controlling officers, they always responded positively. The CSB had been working with departments, both centrally and individually, to provide the appropriate resources for them to meet the public demand. New solutions had been introduced including the use of non-civil service contract staff, which did not exist in the early 1990s. The CSB's prime role was to determine the policy on overtime. It could not administer overtime work in over 80 departments.

78. The **Deputy Secretary for the Treasury** stated that since the launching of the Enhanced Productivity Programme (EPP) in October 1998, there had been a substantial reduction in all kinds of allowances, including the OTA.

79. In the light of the remark of the Deputy Secretary for the Treasury, the Committee enquired whether the savings achieved by reducing expenditure on allowances were counted towards gains under the EPP.

80. At the Committee's request, the **Secretary for the Treasury** confirmed in her letter of 22 December 1999, in ***Appendix 19***, that savings achieved by bureaux and department through reducing expenditure on allowances (as opposed to fringe benefits) were counted towards gains under the EPP. The FB had in fact been advised by many departments, in preparing the 2000-01 Draft Estimates, that part of the mandatory 1% savings required under the EPP in 2000-01 would be delivered through reducing expenditure on allowances, notably overtime allowance.

81. In the same letter, the **Secretary for the Treasury** provided information on the reduction in expenditure on the OTA and DSOA since the introduction of the EPP, as follows:

	1994-95 ($m)	1995-96 ($m)	1996-97 ($m)	1997-98 ($m)	1998-99 ($m)
OTA	947.9	1,115.3	1,223.7	1,431.4	1,384.2
DSOA	481.8	522.8	587.3	537.0	353.6
Total	1,429.7	1,638.1	1,811.0	1,968.4	1,737.8

Acting allowance

82. The Committee noted from paragraph 9.12 of the Audit Report that the CSB was conducting a review on the acting appointment system and the staff side would be consulted by end-1999. The Committee asked what the progress and outcome of the review were.

83. The **Deputy Secretary for the Civil Service** stated that the CSB had embarked on a round of staff consultation with a view to modifying the acting allowance arrangements. Basically, the CSB proposed that the qualifying period should be changed to 30 days. The CSB expected to complete the consultation by the end of 1999. The staff response had not been positive.

84. The Committee noted from paragraph 9.13 of the Audit Report that back in 1989, Audit had informed the CSB that it was not advisable to revise the qualifying period for the payment of acting allowance from 30 to 14 calendar days. As the CSB now proposed to extend the qualifying period back to 30 days, the Committee asked whether the CSB had reversed its stance. The Committee further asked whether the Administration had made reference to the private sector.

85. The **Deputy Secretary for the Civil Service** stated that:

- in 1989, the qualifying period was shortened to tie in with the trend of officers taking shorter leave which gave rise to the need for shorter acting appointments;

- presently, the proposal of extending the qualifying period was put up because it had appeared that officers did try to take longer leaves; and

- as far as he understood, making acting appointments was not a practice in the private sector. It was only a civil service arrangement.

86. Responding to the Committee's question about the potential reduction in the acting allowance following the revision of the qualifying period to 30 days, the **Secretary for the Civil Service** stated that:

- basically, there were two types of acting appointments, namely, acting appointments to test an officer's suitability for promotion and acting appointments for an officer to undertake temporarily the duties of another post which was vacant; and

- acting appointments to cover short-term vacancies only accounted for a small portion of the total expenditure on acting allowance.

87. In his letters of 24 December 1999 and 5 January 2000 in ***Appendices 17 and 20*** respectively, the **Secretary for the Civil Service** further provided the Committee with a breakdown of the expenditure on acting allowance in 1997-98 and 1998-99 by duration. The estimated expenditure on acting allowance by pay band and acting period in 1998-99 is as follows:

Pay band	Acting period (in calendar days)						Total	
	<14 days		14 - 29 days		>=30 days			
	(No.)	($m)	(No.)	($m)	(No.)	($m)	(No.)	($m)

MPS 1-33	12,478	18.0	38,582	79.1	26,789	297.2	77,849	394.3
MPS 34-49	3,729	28.6	9,204	60.9	7,348	179.1	20,281	268.6
Directorate	574	4.4	1,135	9.1	932	31.6	2,641	45.1
Total	16,781	51.0	48,921	149.1	35,069	507.9	100,771	708.0

88. In his letter of 24 December 1999, the **Secretary for the Civil Service** stated that:

- acting appointments intended to test officers' suitability for promotion were normally made for a relatively longer duration, in many cases six months or even longer where necessary. Short-term acting appointments lasting for less than 30 days were in most cases made for administrative convenience to cover temporary vacancies;

- the purpose of the proposed changes to the acting appointment system was to ensure that acting appointments were made and acting allowance granted only where necessary and justified on management or operational needs. It was therefore reasonable to expect that the number of acting appointments, and in turn the expenditure on acting allowance, might be reduced; and

- in 1998-99, about $200 million was paid for acting appointments lasting for a period of less than 30 days. With the implementation of the proposed changes, some of that expenditure might be reduced. However, given that the circumstances for making acting appointments might vary, it was extremely difficult to estimate the potential reduction in acting allowance with any degree of certainty.

89. In her letter of 28 December 1999 in ***Appendix 21***, the **Acting Secretary for the Civil Service** supplemented that:

- in terms of financial implications, acting appointments longer than 30 days accounted for more than $500 million or 72% of the total expenditure on acting allowance in 1998-99. It was reasonable to draw a conclusion that the majority of these longer-term acting appointments were made to test suitability for promotions; and

- having completed the consultation with departmental management and the staff side on the proposed changes to the acting appointment system, the CSB was ready to implement the proposals in January 2000.

90. In view of the fact that the majority of the acting allowance was paid for acting appointments intended to test officers' suitability for promotion, and that officers appointed to act in a post in a higher rank did not receive the pay or fringe benefits of the acting post, the Committee considered that the Government might have actually saved expenditure on pay and fringe benefits as a result of such acting appointments. The Committee invited the Director of Audit's comment in this regard.

91. In his letter of 7 January 2000 in ***Appendix 22***, the **Director of Audit** commented that:

- Audit noted that, in some cases, acting appointments for more than six months were made for administrative convenience to cover temporary vacancies arising from officers' overseas training and prolonged sick leave. Audit estimated that in 1998-99, acting appointments with acting periods of more than 180 days accounted for 6% of the number of appointments made and 36% of the amount of acting allowance paid; and

- an officer might be appointed to act in a vacancy in a higher rank in order to test his suitability for substantive promotion to that rank. The officer's entitlement to fringe benefits (mainly housing benefits and passage) at certain salary points might be different. However, there was no evidence to suggest that acting appointments were made for the purpose of saving expenditure on pay and fringe benefits.

92. Upon the Committee's request, the **Secretary for the Civil Service** provided the Committee with a copy of the paper on "Review of Acting Appointment System" submitted to the Legislative Council Panel on Public Service. A copy of the paper is in ***Appendix 23***. According to the paper, the major proposed changes to the acting appointment system were:

- clear guidelines would be issued to departments to ensure that acting appointments were made only when necessary and justified to meet management or operational needs;

- the minimum qualifying period for payment of acting allowance would be 30 days for all posts including those at bureau secretary and HOD level;

- acting allowance would not be granted for doubling-down acting appointment; and

- under very exceptional circumstances, heads of department/grade might, after consultation with the CSB, grant acting allowance for a period shorter than 30 days if they were personally satisfied that such variation was essential to meet management requirements.

93. On 22 January 2000, Hon CHAN Yuen-han, Hon CHAN Kwok-keung and Hon CHAN Wing-chan of the Federation of Trade Unions submitted a letter, in ***Appendix 24***, to the Committee setting out their views on the HOTA, Mileage allowance, FDAA, dialect allowance, OTA and acting allowance. The Committee noted the views of the three Legislative Council Members.

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

- express serious dismay that:

  (i) the Administration has failed to abolish outdated allowances although it has long been aware that the allowances have become outmoded and no longer justified in present-day circumstances;

  (ii) since 1980, the Committee on Allowances has reduced its own function. Thereafter, the Administration has taken limited initiative to review individual allowances and the system of administration of allowances in the civil service; and

  (iii) in the last 20 years, there have only been three reviews on job-related allowances;

- express dismay at the Administration's strict adherence to the practice of "non-deprivation of existing benefits" where serving officers are allowed the options of retaining the existing benefits and of receiving new benefits and the self-imposed convention of not unilaterally altering the conditions of service without the staff side's agreement, which are the main reasons for continuing to provide the more generous fringe benefits to civil servants, notwithstanding that:

  (i) these practices have not been endorsed by the Executive Council or the Committee on Allowances;

  (ii) there are legal grounds on the basis of which the Government can modify the terms of appointment and conditions of service; and

  (iii) there is a well-established procedure for resolving disputes with the staff associations should these occur;

- express serious concern that:

  (i) even though the Civil Service Bureau (CSB) wanted to alter the home-to-office travelling allowance (HOTA) and withdraw the Independent Commission Against Corruption (ICAC) post allowance in 1992 as they were considered outmoded, it did not vigorously follow through the proper process of consultation; instead, it had only asked the departments concerned to gauge the staff reaction to the proposed change to the HOTA and had not consulted the ICAC staff; and

(ii) the CSB subsequently gave up its proposals to withdraw or alter the allowances in view of the likely difficulties it perceived;

- are encouraged by the staff associations' reasonable and positive response when the Administration formally put up the justifications and proposals for altering the allowances through the consultation mechanism, as in the cases of the HOTA where the staff side has accepted the alteration proposal and of the furniture and domestic appliances allowance (FDAA) where the staff side has agreed to the cessation of payment to new recruits appointed on or after 1 May 1999;

- urge the Secretary for the Civil Service to:

(i) consider implementing a programme to review regularly the justifications for individual allowances at the policy level;

(ii) issue guidelines, including the criteria for approval, to ensure that the mileage allowance is only provided for duty journeys where the use of public transport is not possible;

(iii) in consultation with the Commissioner for Official Languages, the Commissioner of Police and the Judiciary Administrator:

(a) review the current practice of paying the dialect allowance regardless of the frequency of using the dialects by the claimants of the allowance; and

(b) critically examine the justifications for including Putonghua as a dialect qualifying for an allowance;

(iv) take positive action to enforce the requirement that excessive overtime work should be minimised and remind Bureau Secretaries and Heads of Department of the importance of compliance with this requirement;

(v) urgently review, in conjunction with the Heads of Department concerned, the significant recurrent payments of overtime allowance (OTA) in departments, with a view to reducing these payments. In particular, the Secretary for the Civil Service should:

(a) develop strategies to minimise the overtime work of government departments. In doing so, the CSB may wish to draw on the Hong Kong Police Force's experience in reducing the Disciplined Services Overtime Allowance (DSOA);

(b) require the departments concerned to conduct thorough reviews of the staff requirement so as to ascertain ways of minimising the overtime work; and

(c) consider seeking the assistance of the Secretary for the Treasury, in the vetting of the annual estimates for the OTA and the DSOA, with a view to reducing overtime expenditure; and

(vi) regularly monitor the payment of the OTA and the DSOA by departments and take positive action to reduce regular and excessive overtime payments;

- acknowledge that the CSB had implemented the proposals of the review on the acting appointment system, including prolonging the qualifying period for acting allowance to 30 days;

- express concern that the new qualifying period does not apply to officers acting in posts above the level of Bureau Secretary and Head of Department, and urge the Administration to consider applying the new rule to all officers acting in posts at all ranks;

- urge the Secretary for the Civil Service, in conjunction with the Secretary for the Treasury, to take urgent action to ensure that acting appointments are made only when there are genuine operational needs. In particular:

  (i) the Secretary for the Civil Service should promulgate guidelines requiring Policy Secretaries and Heads of Department to exercise due care in making acting appointments. The justifications for all acting appointments should be vigorously vetted; and

  (ii) the Secretary for the Treasury should, in consultation with the Secretary for the Civil Service, consider tightening up the budgetary control over the acting allowance;

- urge the Administration to conduct formal staff consultation with a high degree of transparency in accordance with the established procedure, with a view to working out a timetable for abolishing the outmoded allowances, paying due regard to the Director of Audit's concerns, value-for-money considerations, accountability for public expenditure, prevailing human resource practices in the private sector, and staff reaction;

- urge the Administration to continue to discuss the review on allowances with the Legislative Council; and

- wish to be kept informed of the consultation process, staff reaction, the Administration's stance, the results of the review and, if there are any allowances which are considered not outmoded, the justifications for their continuation.

The Committee noted Audit's review on:

- the purchasers' failure to complete the land sale contract in the case of the sale of the Kowloon Bay site for industrial/office use and the Ap Lei Chau site for a Private Sector Participation Scheme (PSPS) housing development; and

- the sale of the Ma On Shan site by tender for hotel use,

for the purpose of evaluating how effective the Government had been in administering the sale of land by tender and ascertaining whether there was room for improvement.

Purchasers' failure to complete land sale contract

2. The Committee noted that the tenders for the sale of the Kowloon Bay site and the Ap Lei Chau site were awarded in October and November 1997 respectively. However, the purchasers defaulted and failed to complete the land sale contract after the award of the tenders. Audit estimated that the two default cases had resulted in a loss of public revenue of about $400 million. According to a clause in the Tender Notice, the Government could require a purchaser's parent company or associated company to guarantee the completion of the development of the site and to indemnify the Government against all losses arising from the purchaser's failure to complete the sale contract. However, the Lands Department did not invoke the clause to require such a guarantee. As the defaulting purchasers of the two sites were companies with no substantial assets, the Government could not recover its losses from their parent or associated companies. The Committee also noted that contrary to the requirement of the Tender Notice, the purchaser of the Kowloon Bay site had not submitted statements giving evidence of its financial and technical ability in its tender. As a result, the Lands Department could not assess the tenderer's financial position and technical capability prior to the award of the tender.

3. In the light of the above, the Committee asked whether the Administration had made a mistake. **Mr R D Pope**, **Director of Lands**, said that:

- according to the Tender Notices for the sale of the two sites in question, the Government had the right to obtain a parent or associated company guarantee. The Administration had made an error in not asking the purchaser of the Kowloon Bay site to submit a parent or associated company guarantee within seven days from the award of the tender. However, even if it had asked, the end result would not be very different because, shortly after the award of the tender, the purchaser had already requested a deferral in the execution of the Conditions of Sale and the payment of the balance of the tender price;

- in the Ap Lei Chau case, the purchaser had been asked to submit a parent or associated company guarantee but failed to do so. The circumstances of the two cases were similar; and

- when the two sites were put up for sale by tender, the Asian financial crisis had not really started. It was quite clear in November 1997, i.e. after the award of the tenders, that the purchasers were having second thoughts about completing the land sale contracts. Both of them asked for a deferral of the date of payment and other concessions. As their requests were not acceded to, they decided not to proceed with the purchase.

4. **Mr Gordon SIU Kwing-chue**, **Secretary for Planning, Environment and Lands**, commented that as the requirement of a guarantee was stipulated in the Tender Notice, the Administration should have enforced them accordingly. Action should have been taken even though the end results might have been the same. He agreed with the Director of Lands that an error had been made in the case of the sale of the Kowloon Bay site.

5. The Committee noted that the purchasers of the Kowloon Bay site and the Ap Lei Chau site were both newly-formed shelf companies with no landed property in Hong Kong, and asked whether the Administration would consider conducting a search on the financial conditions of potential tenderers so as to protect the Government's interest. The **Director of Lands** said that:

- for the sale of PSPS sites and other sites involving Government facilities where the Government had a clear policy commitment, the Administration would ensure that tenderers would be required to submit their tenders with statements of their financial and technical ability and a parent or associated company guarantee upon the award of a tender;

- it was the Administration's view that the sale of non-PSPS sites by tender should be treated in the same way as a site sold by public auction where the bidders were not required to submit evidence of their financial and technical ability; and

- the Administration was concerned that to require the submission of a parent or associated company guarantee would discourage some smaller property developers from tendering, thereby favouring the larger developers.

6. From paragraph 2.12 of the Audit Report, the Committee noted that in January 1998, the clause requiring the submission of statements of financial and technical ability was deleted from the Tender Notice. However, for the sale of PSPS sites, the clause still remained as one of the requirements specified in the PSPS Tender Notice. Since the premium from the sale of land is an important source of revenue for the Government, and the property market does experience cyclical fluctuations which call for additional safeguards to be put in place to protect the Government's interest, the Committee asked:

- whether the Director of Lands had the authority to delete the clause from the Tender Notice;

- what the original rationale was for stipulating the requirement in the Tender Notice;

- why the Administration decided in December 1997 to discontinue the requirement; and

- whether it was reasonable to impose the requirement only on PSPS tenders.

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

- as the Director of Lands, he had the authority to delete the requirement from the Tender Notice;

- he believed that the rationale for stipulating the requirement in the Tender Notice previously was to safeguard against possible losses. However, this safeguard was more theoretical than real. This was shown to be the case in respect of the Ap Lei Chau tender. Even though the purchaser had been asked to provide the parent or associated company guarantee, it failed to do so and, in the event, the sale contract was defaulted;

- the decision was made subsequent to a review of the policy after the Kowloon Bay and the Ap Lei Chau tenders. The requirement was considered not essential for non-PSPS land sales and it had been rarely implemented. It was also considered that the policy should be consistent with the auction practice to help maintain a level-playing field in the disposal of land; and

- for a straight-forward tender, the Government would ask for a fairly substantial deposit of about ten per cent of the purchase price. Under a steady market condition, this should be sufficient to cover any deficit if the successful tenderer defaulted. The circumstances of the tenders of the Kowloon Bay site and the Ap Lei Chau site were unusual in that the value of property dropped very dramatically over a period of a few weeks or months.

8. In his letter of 16 December 1999 in ***Appendix 25***, the **Secretary for Planning, Environment and Lands** informed the Committee of the history and the rationale for stipulating the requirements in the Tender Notice, and the reasons for deleting the relevant clause from the Tender Notice in January 1998. He said that:

- the clause was included in the Tender Notice to ensure that the tenderers would have the financial and technical ability to complete PSPS projects or those involving Government facilities; and

- the clause was deleted from the non-PSPS Tender Notice for the following reasons:

  (i) the Conditions of Sale of land by auction did not have such a clause; and

  (ii) the Lands Department's main concern in a tender exercise was the acceptability of the tendered premium. The technical capability of the bidder could be ensured through other means such as the building covenant clause in the tender document.

9. At the Committee's suggestion, the **Director of Lands** undertook to consult the relevant trades and professions on the appropriateness of imposing the requirements for evidence of financial and technical ability and parent or associated company guarantees in all land sale tenders, i.e. both PSPS and non-PSPS tenders. He would also consider the proposal of requiring prospective tenderers to submit parent or associated company guarantees at the tender stage.

10. Referring to the Director of Lands' remarks that the requirement for the submission of statements of financial and technical ability had rarely been implemented, the Committee asked whether the relevant clause in the Tender Notice had ever been invoked and who should be held responsible for the failure to implement it. The **Director of Lands** said that it was unfortunate that the requirement in the Tender Notice had been overlooked. He would not wish to mention individual names even if it was possible to identify them.

11. In reply to the same questions put by the Committee, the **Secretary for Planning, Environment and Lands** pointed out in his letter of 16 December 1999 in ***Appendix 25*** that:

- the Lands Department had confirmed that the tender clause had never been invoked to reject a tender, as it was primarily concerned with the acceptability of the tendered premium;

- in respect of the Kowloon Bay site, the tender was examined by officers of various levels at the Lands Department Headquarters in accordance with departmental procedures. These officers included the Senior Estate Surveyor (Valuation), Chief Estate Surveyor (Valuation), Assistant Director (Valuation), Deputy Director (Specialist) and the Acting Director of Lands. The defaulting tenderer had submitted the tender with its parent company's annual report. In accordance with the Lands Department's previous practice, this was considered sufficient; and

- for the Ap Lei Chau site, the tender was considered by the PSPS Tender Board. The Housing Department, as the PSPS Tender Board secretariat, had made an assessment of the financial capability of the three highest tenderers and considered them to be satisfactory on the basis of their sources of finance from banks. The Architectural Services Department, also a member of the PSPS Tender Board, had confirmed that the technical ability of the three highest tenderers was generally acceptable.

12. With reference to the Director of Lands' comments in paragraph 2.29(b) of the Audit Report that to award tenders which did not comply with the requirements of the Tender Notice might inevitably run the risk of legal challenges from other unsuccessful tenderers, the Committee asked whether the Administration had considered this aspect when it decided not to pursue the requirement for the purchasers to submit the parent or associated company guarantees and whether there had been cases where unsuccessful tenderers had challenged the award of such tenders on the ground of unfairness. The **Director of Lands** said that:

- the Tender Notice for the sale of the Kowloon Bay and the Ap Lei Chau sites merely stipulated that the Government had the right to obtain a guarantee from the purchasers' parent or associated company. It was not a requirement that had to be implemented. In this respect, the Administration had not done anything wrong. In normal cases, if the sale and the development had been taken forward, there would not be any possible challenge from unsuccessful tenderers; and

- in practical terms, it could be said that a mistake might have been made in the case of the sale of the Kowloon Bay and the Ap Lei Chau sites. If the Government had asked for the guarantee, it might have been able to recover the balance of the premium from the purchasers.

13. According to paragraphs 2.19 and 2.20 of the Audit Report, the Independent Commission Against Corruption (ICAC) had enquired about the cancellation of the sale of the Ap Lei Chau site and subsequently made some suggestions as to how the Government's interest could be safeguarded in future land sale tenders. The Committee asked whether the ICAC's intervention in this case was rather unusual, and whether there were other land sale cases where the ICAC had taken an interest and conducted an investigation. The **Director of Lands** said that the enquiry was made by the Corruption Prevention Department of the ICAC subsequent to the media coverage on the case. It was more concerned with how the systems worked and how fairness could be ensured in land sale tenders. It had taken no further action nor made further comments after the Lands Department had given its response. The **Secretary for Planning, Environment and Lands** informed the Committee in his letter of 16 December 1999 in ***Appendix 25*** that the ICAC had not approached the Lands Department on other cases relating to the sale of land by tender.

14. Regarding the current position of the Ap Lei Chau site, the **Director of Lands** informed the Committee that the site had been put out for tender for mixed development. The tender would close on 24 December 1999. Before then, the Lands Department would discuss with the Housing Bureau as to whether it would be appropriate to set a reserve price for the sale of sites for mixed development. As the tender had not been awarded, the possible loss of revenue was not yet known. He would inform the Committee when the tender result was available in a few months' time.

15. In his letter of 21 December 1999 in ***Appendix 26***, the **Secretary for Planning, Environment and Lands** provided the Committee with the following information:

- the Lands Department had previously requested company guarantees from the land sale tenders for PSPS and major infrastructure projects including the sale of the Hong Kong China Ferry Terminal site in 1985, the Peak Tower redevelopment site in 1989 and the River Trade Terminal site at Tuen Mun in 1996; and

- prior to April 1999, reserve prices had only been set for the sale of the Leighton Hill site in April 1998 and the Aldrich Bay site in May 1998. The purpose of setting a reserve price for these two sites was to expedite the announcement of the tender results so as to ensure the early completion of the tender process and to minimise any risk of default.

Sale by tender of the Ma On Shan site for hotel use

16. The Committee noted in paragraph 3.8 of the Audit Report that in an attempt to address an anticipated shortage of hotel rooms over the coming ten years, the meeting of the then Chief Secretary's Committee (CSC) on 17 July 1995 agreed to the proposal to increase the plot ratios for hotels. Under the consideration that the Government should move cautiously and should not interfere with the market unnecessarily, the Chief Secretary agreed reluctantly to the recommendation of testing the market with one or two sites earmarked specifically for hotel development. The Ma On Shan site was eventually identified as one of the two sites in the trial scheme and was awarded to the highest tenderer at the tender price of $120 million in March 1998. Audit estimated that the site could have been sold at a price of $764 million if it had been allowed to be developed for residential purposes. Therefore, the estimated revenue forgone arising from the restriction of land use to hotel would amount to some $644 million.

17. With reference to paragraphs 3.21 and 3.25 of the Audit Report, the Committee noted that in the light of the dramatic changes in the outlook for the tourist industry and market sentiment, the Director of Lands had proposed in February 1998 to withdraw the site from tendering with a view to rezoning it for residential use. However, his proposal was not accepted. In March 1998, when submitting the tender report to the Central Tender Board (CTB), he advised the CTB that the tender sum of $120 million was not unreasonable. The Committee asked why the Director of Lands had changed his position within such a short span of time, and as the department with the responsibility of giving professional advice on land sale matters, whether he should have insisted on his original proposal or referred the matter back to the CSC for reconsideration as to whether it was appropriate to award the tender at that time.

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

- having regard to hotel transactions in the preceding one or two years, the Lands Department estimated that, for the purpose of determining the tender deposit, the sale price of the site would be $1,056 million. As the Department expected to receive more than $500 million from the tender, it set the tender deposit at $50 million. At that time, the staff in the Department were not aware of the effect of the Asian financial crisis on the value of property, in particular, those earmarked for hotel development;

- at the closing of the tender, it was apparent that the market had changed very dramatically. In view of the dramatic decline in the number of tourists, he did make a recommendation to the Secretary for Planning, Environment and Lands that the site should not be awarded. However, the policy decision was to proceed with the tender procedures because of the Government's view that it did not operate a high land price policy. This position was obviously not for him to question. It was also not up to him to decide whether the Government should not have awarded the tender because the original estimate was high; and

- it was the view of the Administration that as the tender of the site had been widely publicised and the detailed terms fully disclosed, the two tenders received, which were of similar prices, should be the best indication of market value. On that basis, he was satisfied that the higher tender price was the market value at that time. This had been proved correct historically because the value of property for hotel development had not increased since then and was still depressed.

19. From paragraph 3.26 of the Audit Report, the Committee noted that the use of the Ma On Shan site for hotel purpose was discussed at the CTB meeting in March 1998 and that the Chairman of the CTB had said that the question of whether the site should continue to be sold for hotel purposes was a matter for the Planning, Environment and Lands Bureau (PELB) and the Economic Services Bureau (ESB) to decide. The Committee asked what the positions of the two bureaux were at that time.

20. The **Secretary for Planning, Environment and Lands** said that the position of the PELB had been clearly set out in paragraphs 3.22 and 3.24 of the Audit Report. The decision of zoning the Ma On Shan site for hotel development in support of the hotel and tourist industries was endorsed at various levels of the Administration. The PELB had basically adhered to this decision. The PELB was not a party to the discussion at the CTB meeting.

21. On the same issue, **Mr Stephen IP Shu-kwan**, **Secretary for Economic Services**, said that the ESB was also not a party to the discussion at the CTB meeting in March 1998. The position of the ESB had always been very clear. In view of the fact that the tourist industry had grown rapidly in the past 20 years, that 6% of the Gross Domestic Product was generated from this industry and that 300,000 jobs were at stake, the Government should render support to foster the industry's long-term development. The question of hotel-specific zoning should therefore not be affected by short-term market fluctuations. He would have given the same advice even if the ESB had been consulted at the time of the sale of the Ma On Shan site.

22. The Committee noted that in paragraph 3.23 of the Audit Report, the Director of Planning put forth the view that the Ma On Shan site should be retained for hotel use because the site was suitable for hotel development and any changes in the decision would put the credibility of the Government at risk and draw criticisms from the hotel industry. The Committee asked the Director of Planning:

- why he considered the site suitable for hotel development and whether it was possible to zone the site for mixed development; and

- whether it was appropriate for him, as a professional, to put forth the considerations which were politics-related.

23. **Mr Bosco FUNG Chee-keung**, **Director of Planning**, said that:

- it was not within the jurisdiction of the Planning Department to decide whether a tender should be awarded or not. Basically, its responsibility was to consider whether a particular site was suitable for a certain type of development and whether the planning guidelines had been followed. It was entirely proper for his predecessor to submit his views to the Secretary for Planning, Environment and Lands for his consideration;

- as regards the tender award of the Ma On Shan site, his predecessor was satisfied that the site was suitable for hotel development and that all the necessary planning procedures, including gazettal of the proposed use, public consultation and the Executive Council's (ExCo) approval, had been followed. In view of the fact that the zoning of the site was approved by ExCo in October 1997 after taking into account an objection, the Government would be subject to criticism if it changed its decision within a short period of time; and

- the site had not been considered for rezoning to residential purpose because other options, such as deferring the tender procedure, were being considered at the time. Moreover, the Town Planning Board (TPB) had previously decided not to uphold an objection to the hotel zoning. Rezoning the site to residential use would also render the TPB vulnerable to criticisms.

24. The Committee noted that one of the reasons given by the Secretary for Planning, Environment and Lands in paragraph 3.24 of the Audit Report for deciding not to withdraw the Ma On Shan site from tendering was that it might not be tenable for the Government to argue that it had to withdraw the site because the tender prices were too low, when all the time it had insisted that it did not operate a high land price policy and that prices of land were determined through market forces. In view of the fact that the Administration had previously withdrawn some sites from auctions because the prices offered were less than desirable, the Committee asked why the above argument, which appeared to be contradictory, had been put forth.

25. The **Secretary for Planning, Environment and Lands** said that:

- the estimated sale price of $1,056 million was determined on the basis of the sale of one site at the end of 1996 which was the peak of the property boom. It was therefore debatable whether this figure should be used as the basis for comparison with the actual tender price. Following the drastic economic changes that Hong Kong experienced at that time, the Administration could not possibly compare the tender prices received with any recent transaction prices; and

- the consideration at the time was that the tender exercise had been conducted in an open and fair manner and the tender prices should have reflected the market value at the time. There was virtually no justification for the Administration to withdraw the site or reject the tenders. It was under these considerations that the Administration had outlined its position as mentioned in paragraph 3.24 of the Audit Report.

26. In reply to the Committee's questions on whether the Lands Department had conducted any market research before determining the estimated sale price, and in hindsight, whether a reserve price should have been set for the site to protect the Government's interest, the **Director of Lands** said that:

- no major research had been conducted. The figure of $1,056 million was a rough estimate done by some fairly junior staff of the Lands Department for the purpose of determining the tender deposit. Though it was widely reported at the time that the number of tourists had dropped, there were no land transactions to identify the effect of the decline on the value of hotel property. The staff had also failed to take into account all the factors that were becoming apparent at that time; and

- it was not the policy then to set reserve prices for the sale of land by tender. The Administration's view was that if the sale of a certain site had been given sufficient publicity and if tenders were forthcoming, there was no reason to set a reserve price. However, following the Ma On Shan case, the Lands Department had introduced the policy of setting reserve prices for tenders.

27. The **Secretary for Planning and Lands** (i.e. the Secretary for Planning, Environment and Lands before 1 January 2000) advised the Committee in his letter of 13 January 2000 in ***Appendix 27*** that:

- the estimated sale price for the Ma On Shan site was set by officers at the Estate Surveyor and Senior Estate Surveyor level;

- the estimated price of $1,056 million was worked out in November 1996 and was based on analyses from the market transactions of completed hotels in Kowloon (one transaction at $500 million) and Sha Tin (one transaction at $3,070 million) in 1995;

- the Director of Lands confirmed that only the tender deposit of $50 million was made known to the public and to potential tenderers. As the initial estimated sale price of $1,056 million had not been revealed, this would not have affected the tendering of the site; and

- as explained by the Director of Lands at the public hearing, the tendering of the site in February 1998 might have been affected by the Asian financial crisis. He shared the Director of Lands' view that, given the circumstances, the prices offered by the two tenders were the fair indication of market value for the site at that time.

28. With reference to paragraphs 3.23, 3.28 and 3.30 of the Audit Report, the Committee noted that the Director of Planning had supported the view of the Secretary for Planning, Environment and Lands that the Ma On Shan site should be retained for hotel use. The tender of the site was awarded in March 1998. However, following an enquiry of the Office of the Chief Executive about the shortage of hotel rooms in Hong Kong, the Planning Department put forth the view in April 1998, i.e. one month after the award of the tender, that the sale of the site was rather untimely. The Committee asked:

- why the Planning Department's position on the matter had changed so abruptly within a month's time; and

- as a professional department, whether the Planning Department should have pointed out earlier that the sale of the site was untimely and should not have allowed the site to be sold at such a low price.

29. The **Director of Planning** said that:

- the role of the Planning Department was to give professional advice as to whether the Ma On Shan site was suitable for hotel development and whether the planning procedures had been followed. It was a policy decision as to whether the site should be sold and when it should be sold. As he was not the Director of Planning at the time, he believed that the Administration had considered all relevant factors and struck a balance between the short-term economic conditions and the long-term demand for hotel rooms. The Planning Department should support the decision once this was made. The description in paragraph 3.30 of the Audit Report should therefore be looked upon as a view taken by the Department in hindsight; and

- it was not the case that the Planning Department had changed its position on the matter. The Department had all along supported the view that the Government should foster the development of the tourist industry by designating specific sites for hotel development. This was because the hotel industry would not be in a position to compete for new sites, as most developers would prefer developing the type of property that would give them the highest return on their investment within a relatively short period of time.

30. The Committee asked the Secretary for Economic Services to elaborate on the information that he gave to the Office of the Chief Executive in April 1998 regarding the shortage of hotel rooms and to comment on the long-term development of the tourist and hotel industries. The **Secretary for Economic Services** said that the information on the shortage of hotel rooms was provided by the Hong Kong Tourist Association (HKTA). In arriving at the conclusion that it did not envisage any shortage of hotel rooms before 2002, the HKTA had assumed that all existing hotel development projects would be taken forward. However, it should be noted that the supply and demand of hotel rooms was subject to fluctuations, especially during the Asian financial crisis when the outlook for the industry had changed dramatically. It was also not certain at that time as to whether the developers would proceed with the various developments. It became clear a year later that development projects involving 4,000 hotel rooms had been put on hold.

31. From paragraph 3.14 of the Audit Report, the Committee noted that at a meeting on 29 September 1997 to consider the draft Ma On Shan Outline Zoning Plan (OZP), the Lands and Works Subcommittee of ExCo had expressed reservations about the viability and suitability of the proposed designation of the Ma On Shan site for hotel development and asked for further justifications from the HKTA. The Committee asked what justifications had been submitted by the HKTA to enable the ExCo Subcommittee to approve the draft OZP. The **Secretary for Planning, Environment and Lands** said that the HKTA considered that there was potential for the Sha Tin area to be developed into an international aquatic centre. It therefore supported the designation of the Ma On Shan site for hotel development. It was on this basis that the ExCo Subcommittee approved the draft OZP. The **Secretary for Economic Services** also said that the HKTA had identified the Sha Tin area as one of the new tourism nodes because of the presence of the Shing Mun River and the Sha Tin Race Course. It was also centrally located and was in the vicinity of the Tolo Harbour.

32. Noting that the HKTA had played an active part in justifying the Ma On Shan site for hotel development, the Committee asked who, in normal circumstances, would make the recommendation and the eventual decision to designate a certain site for hotel development. The **Secretary for Planning, Environment and Lands** said that town planning was a participatory process where extensive consultation was conducted. Prior to formulating a zoning plan for a certain district, the PELB would consult the relevant policy bureaux, government departments, professional bodies and other parties who were interested in the land use of the district. Comments would also be invited from these various parties on the specific proposals in the draft OZP. Afterwards, the draft OZP would be submitted to the TPB for approval. The approved OZP would then be gazetted according to law. As a large number of people had been consulted during the process, it would be difficult to ascertain the different weights given to the views expressed by individual parties.

33. The Committee noted Audit's views in paragraph 3.33 of the Audit Report that ExCo had not been informed of the trial scheme of designating the Ma On Shan site as one of the two sites for hotel development, the change in the land disposal policy and the financial implications of the possible loss in revenue in zoning the sites for hotel development. In paragraphs 3.34, 3.35 and 3.36 of the Audit Report, Audit also pointed out that the CSC had not been informed of replacing the originally approved Yuen Chau Kok site with the Ma On Shan site and the significant changes in the hotel industry, particularly the significant decline in the number of tourists and the increase in the supply of hotel rooms. The Committee asked why the above information was not provided to enable ExCo and the CSC to make informed decisions and whether these were deliberate attempts to withhold information from ExCo and the CSC.

34. The **Secretary for Planning, Environment and Lands** said that:

- in the context of the submission of the draft Ma On Shan OZP to ExCo in October 1997, ExCo had been fully informed that the Ma On Shan site was zoned specifically for hotel use. The use of land resources to support a certain sector of the community was a policy that had been formulated earlier. There was no ExCo paper on the use of this particular site as a trial scheme. However, ExCo had been kept in the picture concerning the rezoning of the site for hotel use; and

- the replacement of the Yuen Chau Kok site with the Ma On Shan site had not been brought up specifically because both sites were within the same area proposed in the trial scheme and it was only a matter of making a choice of location.

35. The **Secretary for Economic Services** added that the Chief Secretary and senior officials of the Administration were very much concerned about the hotel and tourist industries and were fully aware of the changes in the industry including the number of tourists and the occupancy rate of hotels which were published on a regular basis. Apart from the CSC, there were other occasions throughout the year for discussions on the developments in the industry and how it should be supported. This was evidenced by the creation of the post of the Commissioner for Tourism to promote the industry.

36. The Committee noted that in paragraph 3.39(a) of the Audit Report, the Secretary for Planning, Environment and Lands had stated that it was the responsibility of the relevant policy bureau to inform the CSC of any significant changes in the market sentiments and outlook for a particular industry and to seek the CSC's views on the appropriate strategy for the development of a particular industry. The Committee asked whether it was the view of the Secretary for Planning, Environment and Lands that in the Ma On Shan case, the Secretary of the relevant bureau had failed to perform his duty properly.

37. The **Secretary for Planning, Environment and Lands** said that it would have been the responsibility of the relevant policy bureau to notify the CSC if a certain policy had taken a new turn after it had been approved. However, what had happened in the Ma On Shan case was just that the timing of the award of the tender had coincided with the Asian financial crisis. As the second site had not been sold, and a decision as to how the trial scheme should proceed after the sale of the two sites had not been made, there was no evidence to show that the Administration had departed from its policy of rendering support to the tourist industry. Therefore, there was no question of the CSC not being informed. The **Secretary for Economic Services** also said that the Government had a clearly stated policy. The Government had taken a long-term view in its support of the tourist industry for the provision of sufficient hotel rooms at competitive prices. There had never been any changes in this respect.

38. The Committee noted that in paragraph 3.26 of the Audit Report, the Chairman of the CTB said at a meeting in March 1998 that the question of whether the Ma On Shan site should continue to be sold for hotel purposes was a matter for the PELB and the ESB to decide. However, the ESB was not consulted until an enquiry was made by the Office of the Chief Executive in April 1998. The Committee asked when the ESB was first consulted on the sale of the Ma On Shan site. The **Secretary for Economic Services** said that:

- ESB had been involved back in 1995 during the discussion on the policy to support the tourist industry. As the sale of the Ma On Shan site was a matter of land use, the ESB was not consulted. Even if the ESB had been consulted, he would have given the same advice that the Government should take a long-term view of the development of the tourist industry and that there was a need to support the hotel industry to make it more competitive; and

- it should be clarified that the enquiry of the Office of the Chief Executive was about the development in the hotel industry, and not about the disposal of the Ma On Shan site for hotel use. The ESB was also not in a position to comment on land prices.

39. In reply to the Committee's question as to why the remarks made by the CTB Chairman had not been followed up, **Miss Elizabeth TSE**, **Deputy Secretary for the Treasury**, said that the CTB was only responsible for vetting tenders, and for ensuring that the bureaux and departments concerned had adhered to the established tender procedures and that the whole tendering process was open and fair. The CTB could not possibly make a policy decision on behalf of the policy bureaux. Policy matters should be followed up by those attending the meeting. The **Secretary for Planning, Environment and Lands** also said that the views expressed by individual officials had been taken into account when the decision was made to proceed with the sale of the Ma On Shan site.

40. The **Secretary for the Treasury** subsequently provided the Committee with the relevant extracts of the CTB meeting held on 6 March 1998. The Secretary informed the Committee that the CTB Chairman's remarks at the meeting was intended to clarify the role of the CTB rather than to query the policy decision underlying the sale of the site for hotel use. The Secretary for the Treasury's decision to accept the Director of Lands' recommendation on the tender for the sale of the Ma On Shan site was conveyed to the Director of Lands on 6 March 1998. The Secretary also informed the Committee that the CTB had not conveyed the Chairman's remarks to the Secretary for Planning, Environment and Lands and the Secretary for Economic Services. Nor had the CTB consulted the Secretary for Economic Services about the sale of the Ma On Shan site for hotel purposes after the meeting. The Secretary for the Treasury's letters of 14 December 1999 and 21 December 1999 are in ***Appendices 28 and 29***.

41. In paragraph (g) of his letter of 16 December 1999 in ***Appendix 25***, the **Secretary for Planning, Environment and Lands** provided the Committee with the relevant extracts of the minutes of the CSC meetings of 17 July 1995 and 14 August 1995. The Secretary also set out the sequence of events to support the Administration's claim that ExCo had been informed of the zoning of the Ma On Shan site for hotel use.

42. In respect of the second site designated for hotel development, i.e. the Tsuen Wan site, the **Secretary for Planning, Environment and Lands** informed the Committee, in his letter of 21 December 1999 in ***Appendix 26***, that:

- the original intention was to sell the Tsuen Wan site in December 1998. After consulting the relevant bureaux and departments, it was decided in May 1998 that the situation would be reviewed in September 1998 with a view to ascertaining whether the scheduled sale should proceed. However, in June 1998, the Government announced a moratorium on land sale for the remainder of the 1998/1999 financial year as one of the measures to relieve the economic difficulties faced by Hong Kong; and

- the Tsuen Wan site had been included in the land sale programme for 1999/2000 and would be tendered through the application system.

43. Having regard to the evidence obtained at the public hearing and the written evidence subsequently provided by the Administration, the Committee considered that the sale of the Ma On Shan site should be viewed in perspective and in the light of the exceptional circumstances in which the trial scheme was approved. There was no evidence to suggest that the Administration had departed from its land sale policy. The Committee noted that the Administration had followed due process in tendering the site and that the award was considered acceptable by the CTB. The Committee considered that the crux of the matter lay in the valuation of the site for determining the tender deposit. The valuation was made by staff of relatively junior levels who had failed to take into account the effects of the Asian financial crisis and the potentially high construction costs due to the possible presence of cavernous marble. The Committee believed that the unrealistically high tender deposit had sent a misleading message to the market and might have deterred potential tenderers from putting in their tenders. This was reflected by the limited interest in the tender exercise. Having regard to the market sentiments at the time and the fact that the site had been zoned for hotel development, the Committee acknowledged that the tender price of $120 million was the market price at the time. In spite of the above, and in view of the changing circumstances at the time, the Committee were concerned that the matter had not been referred back to the CSC for reconsideration as to whether the tender should be accepted. In this regard, the Committee invited the Chief Secretary for Administration to comment on the following aspects:

- whether it was in order for the Secretary for Planning, Environment and Lands and the Director of Lands to proceed with the tendering of the Ma On Shan site without referring back to the CSC; and

- whether the absence of referral to the CSC amounted to negligence because of the omission of an important procedural step, in particular bearing in mind the exceptional circumstances in which the trial scheme was approved.

44. In her letter of 6 January 2000 in ***Appendix 30***, **Mrs Anson CHAN**, **Chief Secretary for Administration**, pointed out that:

- following its decision to proceed with a trial scheme to test the market with two sites earmarked specifically for hotel development, the CSC endorsed the principles for the selection of hotel sites proposed by the Planning Department at its meeting on 14 August 1995. As the selection of sites for hotel development had been undertaken in compliance with the policy and the site selection principles laid down by the CSC, there was no need for the Secretary for Planning, Environment and Lands and the Director of Lands to revert to the CSC before proceeding with the necessary statutory procedures and tendering; and

- the Administration sought the TPB's approval for the zoning of the Ma On Shan site for hotel development in accordance with the statutory provisions under the Town Planning Ordinance, and the approval of ExCo for the draft Ma On Shan OZP which contained the zoning of the hotel site. Approval by the appropriate authorities was duly given before the Ma On Shan site was disposed of by way of tender.

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

Purchasers' failure to complete land sale contract

- express dismay that:

  (i) notwithstanding the fact that the Conditions of Sale of both the Kowloon Bay and the Ap Lei Chau sites empowered the Government to recover all losses arising from the Purchasers' failure to complete the sale, the Government could not do so because the two Purchasers did not have any substantial assets;

  (ii) although the Government had the right to obtain a guarantee from the Purchasers' parent or associated company, such a guarantee had not been obtained when the tenders of the Kowloon Bay and the Ap Lei Chau sites were awarded to the Purchasers; and

  (iii) the Government suffered a loss of $248.4 million due mainly to the drop in land price upon the resale of the Kowloon Bay site. For the Ap Lei Chau site, the estimated loss was $162.9 million;

- acknowledge the statement made by the Director of Lands at the public hearing on 7 December 1999 that for the sale of Private Sector Participation Scheme (PSPS) sites and other sites involving Government facilities, the Administration would ensure that tenderers would be required to submit:

  (i) their tenders with statements of their financial and technical ability; and

  (ii) a parent or associated company guarantee upon the award of a tender;

- urge the Administration to strictly enforce:

  (i) the requirement in the Tender Conditions for PSPS tenders that a bank guarantee or a written parent or associated company guarantee must be submitted within 14 days from the award of the tender;

  (ii) the vetting of the financial statements of the guarantor in cases where such a requirement is contained in the Tender Conditions; and

  (iii) the requirement of the Tender Notice;

- urge the Administration to conduct a proper public consultation on imposing the following requirements in all land sale tenders:

  (i) prospective tenderers should submit their tenders with evidence of their ability to discharge their obligations under the Conditions of Sale; and

(ii) successful tenderers should procure a bank guarantee or a written parent or associated company guarantee for a sum equivalent to the balance of the tender price;

Sale by tender of the Ma On Shan site for hotel use

- express serious dismay that the Administration had not adjusted the valuation of the Ma On Shan site by taking into account the effects of the Asian financial crisis and the potentially high construction costs due to the possible presence of cavernous marble, resulting in:

  (i) an unrealistically high tender deposit requirement which had sent a misleading message to the market and which might have deterred potential tenderers from putting in their tenders;

  (ii) a possible dampening effect on the competition in the tendering exercise and missing the opportunity to realise the full potential value of the site; and

  (iii) a public controversy over the decision to award the tender at $120 million which had undermined the credibility of the Government;

- express serious concern that:

  (i) the Executive Council (ExCo) was not fully informed of the financial implications of possible loss of revenue in zoning sites specifically for hotel developments; and

  (ii) despite the fact that:

    (a) there were significant changes in the hotel and tourist industries since the Chief Secretary for Administration's Committee's (CSC) decision in 1995 to offer two pilot hotel sites for sale;

    (b) the Administration should have known by early 1998 that the tender deposit had been set excessively high;

    (c) there was limited interest in the tender exercise; and

    (d) the tenders returned were far lower than the Administration's expectation,

  the sale of the Ma On Shan site had not been referred back to the CSC, together with an options analysis, for its reconsideration as to whether it was really appropriate to award the tender at that time;

- consider that the flow of information within the Administration could have been more effective, if:

(i) the Central Tender Board had referred the different views expressed at its meeting on the use of the Ma On Shan site for hotel purposes to the Secretary for Economic Services and the Secretary for Planning, Environment and Lands;

(ii) the Secretary for Economic Services had informed the CSC of the significant changes in the market sentiments and the outlook for the hotel and tourist industries, and had sought, on a regular basis, the CSC's views on the appropriate strategy for the development of the industry; and

(iii) the Secretary for Planning, Environment and Lands had referred the matter back to the CSC for in-depth deliberations, taking into account the changing circumstances and the different views expressed, before taking the final decision on the award of the tender;

- acknowledge that the Lands Department has been implementing the procedure of setting a reserve price for the sale of land by tender since the resumption of land sales in April 1999;

- note that:

(i) the Government will review the proposed use of the Tsuen Wan site in consultation with the relevant policy bureaux and departments, if no application for its sale is received in 1999-2000; and

(ii) regarding the other four sites which were identified as potential sites for hotel use, only two of the sites, which are in Hung Hom Bay, are still designated for hotel/service apartment development; and

- wish to be kept informed of:

(i) the progress of sale of the Ap Lei Chau site as a mixed development project;

(ii) the progress of the sale of the Tsuen Wan site; and

(iii) the rezoning of the third site in Sha Tin for PSPS development.

In the Public Accounts Committee's Report No. 21 issued in January 1994, the Committee recommended that the Commissioner of Police take immediate action to identify Police officers with serious debts and relieve them of pecuniary embarrassment. Pursuant to the Report, the Administration has reported periodically to the Committee the results of indebtedness surveys carried out by the Hong Kong Police Force (HKPF) on a half-yearly basis. In late 1998, the Committee noted that the situation of indebtedness of Police officers had deteriorated as evidenced by the significant increase in the number of officers with unmanageable debts. In the Committee's Report No. 31 issued in February 1999, the Committee urged the Director of Audit to monitor the situation closely and report to them in due course.

2. The Committee noted that Audit had carried out this follow-up review to assess the state of indebtedness of Police officers and to examine the HKPF's measures for dealing with the problem of staff indebtedness to ascertain if there was any room for improvement.

3. Noting that the Legislative Council Panel on Security has set up a Sub-committee on Indebtedness of Police Officers to consider the matter, the Committee did not hold any public hearing on this subject. Instead, the Committee asked for written response to their enquiries.

4. According to paragraph 2.19 of the Audit Report, other indicators of staff indebtedness such as the percentage of staff involved in bankruptcies and the percentage of staff subjected to garnishee orders had revealed that the Correctional Services Department (CSD) and the Urban Services Department (USD) also had a serious problem of staff indebtedness.

5. The Committee therefore asked about the measures adopted by the CSD to address the problem of staff indebtedness. The Committee also enquired how the problem of indebtedness of USD staff would be dealt with following the passage of the Provision of Municipal Services (Reorganisation) Bill and the establishment of a new structure, including the Food and Environmental Hygiene Department and the Leisure and Cultural Services Department, for the delivery of municipal services.

6. The **Commissioner of Correctional Services** and the **Director of Urban Services** responded to the Committee's enquiries in their respective letters of 15 December 1999 in ***Appendix 31*** and 16 December 1999 in ***Appendix 32***. The Committee took note of the information provided therein.

The Committee noted that in view of the development of improved governmental financial reporting in developed countries, and the increasing public demand for public accountability for the use of government resources, Audit had conducted a review of the financial reporting framework of the Government.

2. From paragraphs 6.10 to 6.14 of the Audit Report, the Committee noted the various responses given by the participants of the two Departmental Resource Accounts pilot studies. According to paragraph 7.13, the Task Force, which was set up in April 1999 to review the Government's financial reporting policy and to look afresh at the use of accrual accounting in the Government, would seek and take into account the opinions of the parties concerned in determining the way forward. The Committee asked to be provided with a detailed update on the Task Force's assessment of the feedback from the parties concerned. The Committee also sought the Task Force's comments on whether there would be any problems that could not be overcome and would form an obstacle to the implementation of accrual accounting in the Government.

3. The Committee also noted the Secretary for the Treasury's remarks in paragraph 8.1(q) of the Audit Report that it was not practicable for the Task Force to finalise its work effectively before the end of 2000. The Committee asked whether the Task Force had established any key target dates between now and the end of 2000 for its work, and whether it had set up any work plan to consider the possible legal changes which would have an impact on the current budgetary process.

4. The response of the **Secretary for the Treasury** to the Committee's enquiries is set out in her letter of 24 December 1999, in ***Appendix 33***.

5. Noting that the Task Force has planned to complete its deliberations on the potential impact of the use of different accounting bases in June 2000, the Committee wish to invite the Director of Audit to consider whether there is a need to conduct a follow-up review on the subject in due course.

The Committee held public hearings on 16 December 1999 and 4 January 2000 to receive evidence on this subject from the Secretary for Works, the Director of Water Supplies and the Director of Health. The Committee also received additional information from the witnesses after the public hearings.

2. In view of the complexity of the various issues raised, the Committee will hold a third public hearing on 25 February 2000 to receive further evidence from the witnesses. In the circumstances, the Committee have decided to defer a full report on this subject.

The Public Accounts Committee originally planned to hold a public hearing on the above subject in December 1999, but eventually decided to postpone this in view of the imminent restructuring of the municipal services. A new organisation was subsequently established on 1 January 2000 to take over the responsibility of the former Urban Services Department. The Committee have decided to hold the public hearing on 24 February 2000 to receive evidence from the Secretary for the Environment and Food, the Director of Food and Environmental Hygiene and the former Director of Urban Services on the issues raised in the Director of Audit's Report.

2. The Committee will make a full report on this subject in a supplemental report.

The Committee noted Audit's review of the use of energy-efficient air-conditioning systems in Hong Kong. The review also covered the following aspects:

- the Government's effort in promoting the wider use of energy-efficient air-conditioning systems;

- the Water Supplies Department's (WSD) ban on the use of mains water for air-conditioning purposes;

- the adequacy of fresh water supply to meet future demand if the use of mains water for air-conditioning purposes was permitted; and

- health concern over the operation of fresh water cooling towers.

2. The Committee noted that in 1998, the commercial sector accounted for 59% of the total electricity consumption in Hong Kong. According to Audit's estimate, if water-cooled air-conditioning systems (WACS) were used by the commercial sector, this could result in annual savings of $1.2 billion in electricity consumption. In this light, the Committee asked whether the Government had a long-term policy for promoting the use of WACS in Hong Kong and whether there was an inter-departmental committee overseeing this issue. The Committee were also concerned about the adequacy of fresh water supply in the event of the wider use of WACS.

3. **Mr Gordon SIU Kwing-chue**, **Secretary for Planning, Environment and Lands**, said that:

- an inter-departmental committee had been set up and the current policy was to encourage the establishment of the centralised cooling systems in new districts. The Administration was considering the question on two fronts. For new districts abutting the sea, such as the South East Kowloon Development District, the Central and Wan Chai reclamation site, the future Tsuen Wan and Hong Kong Island West reclamation sites, the adoption of a centralised piped supply of sea water system was being considered. For built-up areas such as the new towns in the New Territories and urban areas which were far away from the sea, there would be more technical problems in installing the centralised cooling systems. The Administration would take a long-term view and consider how it could encourage the establishment of the centralised cooling systems in these districts;

- different facilities would be required for different areas. If it was not technically feasible for some districts to adopt the centralised cooling systems, other options such as the piping systems would be considered. The Administration's objective was to provide the infrastructure so as to enable commercial buildings to convert to WACS more easily; and

- from the point of view of sustainable development, fresh water is more precious. Thus, if the sea water system was feasible, then it would be preferable. But for inland districts, this might not be feasible.

4. **Mr H B Phillipson**, **Acting Secretary for Works**, said that:

- the issue relating to water resources was one of the key considerations in promoting the wider use of WACS. The fresh water supply situation had changed considerably in the last ten years. The availability of raw water was in a much better position. However, the capacity of treatment works was also critical. The water treatment plant at Ngau Tam Mei would be completed later in 2000 and another one at Tai Po in 2001. With these additions, there would be sufficient treated water for a possible move towards the wider use of WACS;

- aside from water treatment considerations, the capacity of local water distribution systems was also important. If WACS usage increased significantly in a particular commercial district, there would be an urgent need to upgrade the water distribution systems in that district. However, there was a risk that other facilities in the district such as the operation of fire hydrants and services to customers would be affected; and

- the Works Bureau and the departments concerned were very keen to assist the Planning, Environment and Lands Bureau in taking the initiative forward. At the same time, the constraints had to be considered and overcome.

5. The Committee noted that in paragraph 2.19 of the Audit Report, the Director of Electrical and Mechanical Services pointed out that the effective energy saving for WACS could not be maintained at 30% to 40% all year round. Based on the latest available data, the saving in electricity consumption and the net saving in operating costs would be lower than the estimates made in 1996. The Committee asked whether any studies had been conducted to ascertain the cost-effectiveness of WACS, and about the level of energy saving that could be achieved if WACS were to be adopted.

6. **Mr LEUNG Cham-tim**, **Director of Electrical and Mechanical Services**, advised the Committee that:

- the findings of the Preliminary Phase of a consultancy study commissioned in 1998 confirmed that the district cooling system was the most energy-efficient option with the highest economic and financial benefits; and

- in ideal operating conditions, a saving of 37% could be achieved for WACS. However, according to the review of the Electrical and Mechanical Services Department (EMSD), the average energy saving level would be about 22%.

7. The **Acting Secretary for Works** added that the most significant savings would be achieved by the district cooling systems. For a system which served up to 20 large commercial buildings, savings could amount to 32% in electricity consumption and 26% in operating costs. For conversions in individual buildings, the savings would be less significant i.e. around 10% for electricity consumption and 2% for operating costs.

8. The Committee noted that due to the ban on the use of mains water for WACS, most commercial and industrial buildings had been forced to use air-cooled air-conditioning systems (AACS). In the meantime, surplus fresh water from Dongjiang was overflowing from the reservoirs into the sea. The Committee asked whether this state of affairs meant that both energy and water conservation were being sacrificed and whether the WSD still insisted that mains water should not be used for WACS. The Committee also asked whether the Administration had any plans to encourage commercial buildings to switch from AACS to WACS.

9. The **Acting Secretary for Works** said that:

- the security of water supply to the public had always been the top priority and that the Administration had to guard against extreme drought conditions. If there were a one in 50 year drought, the yield from rainfall and the water from Guangdong Province would not be sufficient to meet the needs of the public. The reserve in the reservoirs would then be drawn upon to provide adequate supply. In fact, the current surplus water situation was caused by seven exceptionally wet years. As action had to be taken to ensure that there would be adequate water supply during the very dry years, some overflow in the very wet years would be inevitable; and

- the WSD was not opposed to the idea of promoting the wider use of WACS. Its primary concern was the water resource situation. As the situation had improved, there should be sufficient water supply to meet the needs arising from the wider use of WACS. In spite of that, there would not be adequate water treatment capacity until two years later. The capacity of the water distribution system might also need to be upgraded. Under such circumstances, it would have been irresponsible for the Director of Water Supplies to relax the ban on the use of fresh water for air-conditioning purposes immediately.

10. The **Secretary for Planning, Environment and Lands** also pointed out that from a planning point of view, the Administration's hope was to make both sea water and fresh water systems available to commercial buildings. However, for the existing commercial buildings, if they wished to switch from AACS to WACS, two factors i.e. the distribution system already installed within the building and the capacity of the water-cooling system had to be considered. It would be difficult for a building using AACS to switch over to WACS within a very short period of time. What the Government could do was to provide infrastructural support like waterworks. New commercial buildings would then have the option to consider adopting WACS.

11. From paragraphs 3.1 to 3.3 of the Audit Report, the Committee noted that the subject of using WACS as a potential area of energy saving was discussed by the Energy Efficiency Advisory Committee in 1991. The subject was again considered by the Energy Efficiency and Conservation Sub-Committee (EECSC) in 1997. At a meeting held in January 1997, the EECSC expressed support for the wider use of WACS in Hong Kong and requested the Government to study how to take this matter forward. At another meeting held in July 1997, the Government advised that it would conduct a consultancy study on the feasibility of and economic justifications for the wider use of WACS, and that the study would cost $50 million and last six years. According to paragraph 3.4, some members of the EECSC had expressed disappointment at the Government's decision to conduct the consultancy study only. They also pointed out that most professionals would agree that WACS would be more energy-efficient than AACS and that it was a waste of time to carry out a feasibility study to adopt WACS. In the light of the above, the Committee asked:

- why the Administration did not heed the EECSC's comments and proceeded with the consultancy study;

- whether it was fair for the EECSC to comment that the consultancy was a waste of money; and
- when the conclusions from the study could be expected.

12. The **Director of Electrical and Mechanical Services** said that:

- funding for the Preliminary Phase of the consultancy study was sought in April 1997. While the total budget for the consultancy study was $50 million, the Preliminary Phase had only cost $3.2 million;

- the Preliminary Phase of the consultancy study commenced in October 1998 and had now been completed. Many aspects had been covered, including a comparison between various WACS with AACS, the mechanism for monitoring and maintaining the district cooling systems, the supervision of the existing cooling towers and the risk and prevention of Legionnaires' Disease (LD). The report was issued in mid-1999; and

- subject to the availability of funds, the Preliminary Phase would be followed by a territory-wide study and district-based studies. The studies would commence in mid-2000 and would proceed in parallel. They would be completed by 2001.

13. The Committee noted that according to paragraph 3.14 of the Audit Report, the Secretary for Planning, Environment and Lands was very keen on the idea of promoting the wider use of WACS because there were potentially very significant benefits to the community in his policy areas. He was also of the view that it was not the exclusive preserve of the WSD to decide government policy, even on issues which involved water, and that the difficulties and constraints were not insurmountable. Then in paragraph 3.21, the EMSD decided to bring forward the Phase 2 Study and make it a Territorial Study. The Committee asked whether the EMSD's decision to expedite Phase 2 of the consultancy study to mid-2000 was a result of the views expressed by the Secretary for Planning, Environment and Lands. The **Director of Electrical and Mechanical Services** said that the timetable of the consultancy study was shortened because the Administration decided that all three follow-up studies would be conducted simultaneously. The availability of resources was another consideration.

14. The **Acting Secretary for Works** assured the Committee that the EECSC was treated with great respect and that their ideas were taken on board as soon as possible. However, the water supply situation was that the ban on using mains water could not be relaxed immediately. It was therefore prudent to take a cautious approach in addressing the issue. The Works Bureau and the departments concerned were providing support to the Planning, Environment and Lands Bureau as much as they could.

15. On the need for the consultancy study and the conservative attitude adopted by the Administration in the past, the **Secretary for Planning, Environment and Lands** said that:

- for areas abutting the sea, it was not necessary to verify the benefits of WACS. Hence, there was no need to wait for the completion of the territory-wide study. The question that needed to be considered was how the centralised piped supply of sea water system could be introduced; and

- it was recognised that the water resource situation had improved and there was surplus water supply. However, from the sustainable development angle, water should be conserved. The question of supplying fresh water for air-conditioning purposes should be carefully considered because in the event of a drought, it would be difficult to stop the water supply to the cooling towers in order to maintain adequate supply to the public. It should also be noted that many parts of the world suffered from a deficit in water supply. Accordingly, it would be prudent to adopt a cautious attitude.

16. The **Acting Secretary for Works** added that New York City also disallowed using mains water for WACS for water conservation considerations. Every water authority had to make a very careful judgement as to how much it could expand its services without prejudicing the water supply to the public. Furthermore, district cooling systems involved rather complex issues such as development, operations, financing, maintenance and property rights. These issues were not covered in the Preliminary Phase of the consultancy study and had to be carefully studied in the follow-up studies.

17. In reply to the Committee's question on whether the Administration had conducted any study to assess the likely demand for fresh water for air-conditioning, the **Acting Secretary for Works** said that an estimation had been done. The existing 12,000 cooling towers, which were identified in a survey conducted by the EMSD in 1996, consumed about 7 million cubic metres of water a year. If all AACS were converted to WACS, about 100 million cubic metres of water would be used. Subject to the various limitations mentioned earlier, there should not be any major problem with raw water supply for the next fifteen years, which was the time period being considered for the gradual conversion to WACS. In the meantime, a substantial amount of work had to be done to upgrade the treatment and distribution systems.

18. **Mr CHAN Wing-sang**, **Deputy Secretary for Works (Works Policy)**, supplemented that the exising water-cooling systems only took up 1% of the actual total water consumption. This would be increased to 10% if fresh water were to be used for air conditioning in commercial premises. That was why a gradual conversion to WACS was preferred. **Mr CHAN Pui-wah**, **Acting Director of Water Supplies**, also said that by 2001, the Tai Po treatment plant would be commissioned to augment the water supply to the urban areas in Hong Kong and Kowloon where most WACS conversions were expected to take place. Before then, there would be difficulties in relaxing the ban on the use of mains water for air-conditioning purposes on a full scale.

19. With reference to paragraph 4.13 of the Audit Report, the Committee noted that the WSD had conducted a review on the use of mains water for air conditioning which should have been completed by November 1999. The Committee asked what the findings of the review were. The **Deputy Secretary for Works (Works Policy)** said that one of the findings of the review was that the water treatment works would have sufficient capacity by 2001 to meet the additional water demand from WACS. However, the capacity of the distribution system was not adequate to cope with the additional requirement. An inter-departmental working group had been set up to carry out a pilot scheme for promoting the use of WACS in five districts including Yau Ma Tei, Wan Chai, Tai Po Industrial Estate, Yuen Long Industrial Estate and Pokfulam.

20. The Committee asked whether the Administration had to amend the relevant regulations if it were to relax the ban on the use of mains water for air-conditioning purposes. The **Acting Secretary for Works** said that there was no need to amend the existing regulations because people would still be required to apply for permission to use mains water for air-conditioning purposes. However, the permission would be granted more readily.

21. From paragraph 4.10 of the Audit Report, the Committee noted that only 116 of the 12,000 cooling towers in Hong Kong were given approval by the Water Supply Department in the past 20 years to use fresh water for air-conditioning purposes. In 1997 and 1998, the WSD had only prosecuted six cases of misuse of water for air-conditioning purposes. The Committee asked why so little enforcement action had been taken. The **Deputy Secretary for Works (Works Policy)** said that:

- some of the 12,000 cooling towers were no longer in use because the factories for which the cooling towers were installed had relocated; and

- warnings would be issued if complaints were received or when breaches were identified. Some 300 warnings had been issued in the past. As ten of the establishments were repeated offenders, they had been prosecuted.

22. Having regard to the information provided by the Director of Electrical and Mechanical Services that the number of cooling towers had increased by 6%, and that 60% of the 12,000 cooling towers appeared to be not properly maintained, the Committee were concerned about potential health problems arising from the absence of adequate supervision to ensure proper maintenance of the cooling towers. The Committee asked whether the Administration had a policy to address this issue. The **Acting Secretary for Works** said that:

- from the point of view of water supply, these cooling towers were not causing concern. However, it was clear that the situation would need rationalisation. This had to be reviewed in the expectation that the ban on the use of fresh water for air conditioning would be relaxed in one or two years' time;

- the experience of the WSD was that it was not easy to identify the buildings and the premises to which the cooling towers were related. It was also hard to detect the unauthorised connections because they are installed within the premises. As the operators were paying for the water consumed, they were not using the water illegally. In spite of these difficulties, the WSD would continue to enforce the regulations; and

- his understanding was that the risk of LD was not a major issue at the moment. However, this would have to be dealt with if the wider use of fresh water cooling towers was permitted.

23. The **Acting Director of Water Supplies** supplemented that there was no major outbreak of LD in Hong Kong in the past decade. In fact, the number of reported cases had been very low. It could therefore be assumed that the presence of the 12,000 cooling towers had not increased the risk of LD. There was also a possibility that these cooling towers had been properly maintained.

24. **Dr CHAN FUNG Fu-chun**, **Director of Health**, also said that:

- the risk of LD was always there because the bacteria did not just survive in mains water, but could also proliferate in raw water; and
- as far as WACS were concerned, the risk of LD was substantially lower if sea water was used. However, it did not mean that fresh water should not be used for WACS. The wider use of fresh water for air-conditioning purposes should be encouraged only if a proper system was put in place to monitor the design, operation and maintenance of the water cooling towers with a view to safeguarding public health.

25. The Committee noted Audit's view in paragraph 3.16 that the local professional engineering bodies and organisations were generally well aware of the use and benefits of WACS. Developers and users should be given the option of installing WACS in new buildings and also in existing buildings when their air-conditioning plants were due for replacement. This approach would require little government intervention and allow the private sector to make use of WACS to save energy. The Committee asked, from the point of view of sustainable development, whether the Administration would encourage the wider use of WACS to save energy.

26. The **Secretary for Planning, Environment and Lands** said that:

- the Administration would encourage the use of sea water for WACS for sites near the waterfront. This would be beneficial to all parties concerned because energy could be saved and the air quality could be improved;

- however, a more cautious approach should be adopted in the use of fresh water. Apart from the risk of LD, there were the concerns about the demand on fresh water and the capacity of the distribution systems; and

- a territory-wide consultancy study would be conducted. The overall objective was to reduce the demand on energy and air pollution by using water for cooling towers as far as possible, irrespective of whether it was sea water or fresh water and so long as the technical problems could be overcome.

27. In his letters of 20 December 1999, 4 January 2000 and 8 January 2000 in ***Appendices 7 to 9***, the **Secretary for Works** provided the Committee with the following additional information:

- the Buildings Department would monitor the illegal structures supporting cooling towers outside external walls;

- the monitoring of the misuse of water for air conditioning was carried out by the WSD's Regional Consumer Services Sections. Prosecution was undertaken by the WSD's Prosecution Unit. The WSD would continue to enforce the Waterworks Regulations in respect of the use of mains water for air-conditioning purposes in the same way as before. If an unauthorised extension of the inside service was discovered in the course of building inspection or upon a public complaint, then the WSD would give a warning and ask the operator to remove it. The Administration's experience was that these irregularities were rectified following the warning. However, if the operator refused to rectify the unauthorised extension, he would be prosecuted;

- for the prevention of LD, the current practice was to encourage operators of water cooling towers to follow the Code of Practice. The Administration would consider implementing a regulatory and control mechanism if the wider use of fresh water cooling towers was permitted. This aspect would be covered in the forthcoming territory-wide study by the EMSD;

- the Report of the WSD's Review in November 1999 had recommended that the current policy on the use of mains water for air-conditioning purposes in non-domestic premises could be relaxed starting from 2000. Applications for permission to use mains water in WACS would have to be examined on a district basis, subject to the availability of spare capacity in the local water supply and distribution systems to meet the additional cooling water demand;

- at the end of 1999, the Administration had assessed the possible additional fresh water demand arising from the adoption of WACS using fresh water cooling towers. It was found that the total demand, including the demand from using WACS, for the next ten years could be met with an adequate safety margin;

- the Preliminary Phase of the consultancy study was necessary and useful in providing independent findings and recommendations to enable the Administration to gain insights into the engineering, environmental and economic viability of the wider use of WACS, as well as benefits and disadvantages of a variety of feasible WACS schemes;

- it was first suggested in March 1999 that the consultancy studies could be adjusted so that some districts requiring less intensive WACS infrastructure could achieve potential energy saving earlier. This recommendation was endorsed by the Secretary for Planning, Environment and Lands and other senior officials in the Economic Services Bureau, Finance Bureau, Information, Technology and Broadcasting Bureau and Works Bureau in May 1999; and

- it would be beneficial to set up a registration and licensing system for cooling towers in order to facilitate the monitoring and control of LD. Given adequate resources and time, the Administration did not envisage insurmountable problems in setting up the system. This would be considered in the territory-wide consultancy study. The study would also examine how the existing cooling towers could be brought under the regulation of the future registration and licensing system.

28. In her letter of 10 January 2000 in ***Appendix 10***, the **Secretary for the Environment and Food** provided the Committee with further information on the consultancy studies. She also advised the Committee that the wide range of issues covered in these studies would not be entirely within the management duty, expertise and knowledge of any single department including the EMSD and the WSD. It had been agreed within the Administration that the Secretary for Planning and Lands would take the lead in the studies with the support of the EMSD's Energy Efficiency Office (EEO) as the technical adviser. However, at the time, the EEO was fully committed to the existing initiatives and could only manage to redeploy sufficient resources to supervise the Preliminary Phase of the consultancy study. This was already at the expense of delays to other energy efficiency and conservation initiatives.

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

- recognise that the subject of using water-cooled air-conditioning systems (WACS) was raised by the Energy Efficiency Advisory Committee in 1991 and that the Water Supplies Department (WSD) had reviewed the use of mains water for air-conditioning purposes in 1995;

- express strong dissatisfaction that the Director of Water Supplies, in deciding not to relax the ban on the use of mains water for air-conditioning purposes after the review in 1995, has failed to take into account the facts that:

  (i) the industrial consumption of fresh water in Hong Kong has been on a declining trend since the early 1990s;
  (ii) there is a steady supply of fresh water from Guangdong Province; and
  (iii) there is a substantial forecast surplus supply of fresh water for the years from 1999 to 2012;

- concur with the view expressed by the Energy Efficiency and Conservation Sub-Committee (EECSC) in January 1997 that air conditioning in commercial premises is no longer simply for comfort but has become a basic requirement for business operations;

- concur with the views expressed by some members of the EECSC in July 1997 that:

  (i) it was disappointing to note that the Government had only proposed to conduct a consultancy study;

  (ii) most professionals would agree that WACS would be more energy-efficient than AACS and this did not need to be re-established; and

  (iii) it was a waste of time to carry out a feasibility study to adopt WACS;

- express dismay that the Government commissioned the consultancy study in 1998 to assess the feasibility of and the economic justifications for the wider use of WACS, despite the fact that:

  (i) with the necessary support from relevant departments, the assessment should be within the management duty, expertise and knowledge of the WSD and the Electrical and Mechanical Services Department (EMSD); and

  (ii) the study will cause unnecessary expense and delay in promoting the wider use of WACS;

- express concern that the consultancy study is not addressing the issue of using energy-efficient air-conditioning systems in the most effective way, as the scope of the study does not include a detailed examination of the rationale for disallowing the use of mains water for air-conditioning purposes;

- express strong dismay that the Director of Water Supplies still resists the idea of allowing the use of fresh water for WACS and that, with the commissioning of the consultancy study, the scope and the value of which have been questioned, the process of relaxing the ban on WACS has been further delayed;

- acknowledge the views of the Secretary for Planning, Environment and Lands on the current position of the implementation of the more energy-efficient WACS, particularly the seawater-cooled district cooling systems;

- consider that the WSD should relax the ban on the use of mains water for air-conditioning purposes, in the light of the conclusion of the WSD's latest review, completed in November 1999, that the water treatment works would have sufficient capacity by 2001 to cope with the additional demand of the WACS;

- urge the Administration to expedite its efforts in promoting and facilitating the wider use of WACS in Hong Kong;

- express concern that:

  (i) the Prevention of Legionnaires' Disease Committee (PLDC) can only promote voluntary compliance with the Code of Practice by cooling tower owners and operators;

  (ii) the requirements of the Code of Practice are not followed up by a monitoring system to safeguard public health;

  (iii) the 1996 EMSD's survey revealed that 14% of the 12,000 cooling towers in Hong Kong were not properly installed and 47% of them were poorly maintained; and

  (iv) the PLDC has not proceeded further with its original idea of establishing a registration system of cooling towers;

- concur with the Director of Health's remarks at the public hearing that the wider use of fresh water for air-conditioning purposes should be encouraged only if a proper system is put in place to monitor the design, operation and maintenance of the water cooling towers with a view to safeguarding public health;

- recommend that, in order to minimise the risk of Legionnaires' Disease, the Secretary for Works and the Director of Electrical and Mechanical Services should:

(i) consider ways, including the setting up of a registration and licensing system, of requiring operators and owners of fresh water cooling towers to comply with the Code of Practice on the proper operation and maintenance of cooling towers; and

(ii) ensure that, as a matter of urgency, the operation and maintenance of the existing 12,000 water cooling towers are closely monitored, and that there would be a smooth transition to bring these cooling towers under the regulation of the future registration and licensing system; and

- wish to be kept informed of:

(i) the action plan to be adopted by the WSD for relaxing the ban on the use of mains water for air-conditioning purposes;

(ii) the strategies to be adopted by the EMSD and the WSD for promulgating the requirements of the Code of Practice on the proper operation of cooling towers and for regulating the operation of illegal fresh water cooling towers; and

(iii) the findings of the Phase 1 and Phase 2 of the consultancy study on the wider use of WACS in Hong Kong.

The Committee held a public hearing on 10 December 1999 to receive evidence on this subject from the Chairman of the Vocational Training Council, the Executive Director of the Vocational Training Council, the Secretary for Education and Manpower and the Director of Architectural Services. The Committee also received additional information from the witnesses after the public hearing.

2. In view of the complexity of the various issues raised, the Committee will hold a second public hearing on 25 February 2000 to receive further evidence from the witnesses. In the circumstances, the Committee have decided to defer a full report on this subject.

The Committee noted Audit's review of the services provided by the Companies Registry (CR). The review had examined:

- whether the CR, having been operating as a trading fund for six years, had made improvement in the quality of service to customers; and

- the effectiveness of the CR in ensuring compliance by companies and their officers with their obligations under the Companies Ordinance (Cap. 32).

2. The Committee noted that according to paragraph 48 of the Audit Report, the progress of implementing on-line search services had been slow. Instead of the originally planned implementation date of early 1998, the Companies Registry On-line Public Search System (CROPS) would only be available for public use in early 2000. In paragraph 49, Audit expressed reservations as to whether CROPS could meet the needs of customers. The Committee asked whether the CR had adopted any measures to remedy the situation and to address the needs of its customers.

3. The Committee also noted in paragraph 50 of the Audit Report that the CR was preparing a Strategic Change Plan with a view to implementing electronic filing, electronic processing and electronic searching by 2005. However, compared with the Land Registry and the companies registries in certain overseas countries, the CR was lagging behind in implementing computerisation and on-line search services. The Committee were concerned about the progress of the Plan and asked about the key target dates for its implementation.

4. From paragraph 63 of the Audit Report, the Committee noted with concern that in 1998-99, 36,646 companies did not file annual returns and that the amount of annual registration fees uncollected by the CR was about $60 million. The Committee also noted in paragraph 80 that a major portion of the CR's income came from annual registration fees of late returns and that in the long term, the revenue from the late filing of returns might be reduced significantly if more companies filed returns on time and paid the basic fee. The Committee therefore asked to be provided with the following information:

- the specific measures that the CR had adopted to improve the compliance rate of filing of annual returns and to reduce its reliance on the late filing revenue;

- the business and financial plans of the CR for the coming two years, i.e. 2000-01 and 2001-02; and

- the CR's budget for 2000-01 with detailed analysis of income and expenditure.

5. The response of the **Acting Registrar of Companies** to the Committee's enquiries is set out in his letter of 29 December 1999, in ***Appendix 11***. The Committee took note of the information provided therein.

The Committee noted that Audit had conducted a review on the management of on-street parking spaces and parking facilities, with the following objectives:

- to evaluate whether on-street parking spaces had been administered efficiently and effectively;

- to examine the administration of the contract for the management of parking meters;

- to review the procurement of electronic meters and the use of e-park cards; and

- to review the park-and-ride facilities at the Sheung Shui Railway Station, and the provision of motor cycle and visitor parking facilities in new developments.

Metering of on-street parking spaces

2. The Committee noted from paragraph 2.6 of the Audit Report that the Administration had stated in a 1981 Executive Council (ExCo) Memorandum that the eventual aim was to extend metering to all parts of the urban areas and the New Towns where on-street parking could be permitted. However, paragraph 2.7 of the Report revealed that as at 1 April 1999, only 69% (or 15,520) of the on-street parking spaces had been metered while 31% (or 6,840) had not been metered. The Committee asked why the metering policy as endorsed by the ExCo had not been fully implemented.

3. **Mr Nicholas NG Wing-fui**, **Secretary for Transport**, stated that the policy of metering parking spaces was based on traffic management needs rather than revenue-raising considerations. He further said that:

- all along the Administration had adhered to the policy set out in the 1981 ExCo Memorandum i.e. to meter on-street parking spaces in the urban areas and in the New Towns. There was a gradual process to extend metering to such areas. The pace of installation hinged on such issues as viability and technical feasibility; and

- there had not been a policy of installing parking meters in areas other than the urban areas and the New Towns. In deciding whether metering should be extended to such areas, the Administration would take into consideration the actual use of the road, the need to discourage long-term parking in particular spots, as well as the need to ensure smooth circulation on the road, so as to ensure that a 15% availability rate was maintained at all times for parking spaces.

4. In the light of the Secretary for Transport's response, the Committee recognised that according to the Administration, there were some areas in the territory where metering was not necessary. The Committee considered that this view was at variance with that of the Director of Audit. In paragraph 2.12 of the Audit Report, the Director of Audit maintained that the Administration's metering policy, as set out in the 1981 ExCo Memorandum, was to extend metering to "all parts" of the urban areas and the New Towns. The Committee asked the Director of Audit for his opinion, particularly on the meaning of all parts of the urban areas and the New Towns.

5. In response, **Mr Dominic CHAN Yin-tat, Director of Audit**, said he considered that the Secretary for Transport's understanding of the policy was the same as his. In other words, metering should first be extended to the urban areas and the New Towns, and then to parts of the New Territories outside the new town boundaries where there was a high utilisation rate. Nevertheless, the Secretary for Transport and he himself held different views about the timing of implementation.

6. Regarding the Secretary for Transport's remark that the policy of metering was based on traffic management needs, the Committee considered that there were potential inconsistencies in the policy. This was because under this principle, it was possible to have parking spaces which were not metered due to the absence of traffic management needs. On the other hand, according to the 1981 ExCo Memorandum, meters should be installed at such parking spaces regardless of whether there were traffic management justifications. In the circumstances, the Committee asked the Secretary for Transport to clarify the Administration's metering policy and the background of the 1981 ExCo Memorandum.

7. In his letter of 4 January 2000 in ***Appendix 12***, the **Secretary for Transport** informed the Committee that:

- the Administration metering policy was that where and when free on-street parking spaces were insufficient to meet demand, the spaces should be metered and charges set to ensure a reasonable turnover was maintained. The policy was clearly predicated on first identifying the need and then exercising control to meet traffic arrangement objectives; and

- as Hong Kong continued to develop, certain parts of the territory (such as built-up areas) saw much greater need for effective control of the on-street parking spaces. In 1981 therefore, in the context of the Administration's submission to the ExCo to revise parking charges, the Administration stated that the eventual aim was to extend metering to all on-street parking spaces in the urban areas and the New Towns. This aim was fully in line with the on-street parking policy.

8. On the implementation of the metering policy, **Mr R C L Footman, Commissioner for Transport**, said that :

- the Transport Department had all along been implementing the metering policy as stated in the 1981 ExCo Memorandum;

- in the past few years, the Transport Department's focus was on the introduction of electronic parking devices. At that time, it was not possible to extend the metering programme as fast as the Department would like because the mechanical parking meters used previously were no longer produced by the manufacturer; and

- having passed through that period and with the completion of the installation of electronic parking devices earlier the year, the Department would launch a five-year programme to install 2,500 parking meters, most of which would be in the next 12 months. Upon completion of the programme, there would still be about 1,600 non-metered parking spaces in the urban areas. The Department would identify the number of these spaces that could be metered as early as possible.

9. The Committee requested the Commissioner for Transport to provide in writing the details of metered and non-metered on-street parking spaces in the territory and the Transport Department's plan for metering the non-metered spaces.

10. The **Commissioner for Transport,** in his letter of 14 December 1999 in ***Appendix 13***, provided the Committee with the statistics of on-street parking spaces as follows:

Number of on-street metered parking spaces	15,500
Number of on-street non-metered parking spaces (including 4,300 spaces for motor cycles)	11,100
Total number of on-street metered and non-metered spaces	26,600

The **Commissioner for Transport** further stated in the letter that:

- there would be about 6,800 non-metered spaces (i.e. 11,100 total spaces less 4,300 motor cycle spaces) requiring consideration of installation of parking meters. The Transport Department already had a plan to install about 2,500 parking meters under the Five Year Parking Meter Expansion Programme 1999-2000 to 2003-2004;

- out of the 4,300 spaces (i.e. 6,800 less 2,500) not yet covered in the above expansion programme, about 1,600 spaces were located in built-up areas and 2,700 near country parks and less developed areas; and

- subject to the availability of funds and the necessary resources for implementation, the Transport Department would examine and include the 1,600 spaces and some of the 2,700 spaces in the above expansion programme, taking into account their utilisation rate and traffic management justifications.

11. The Committee enquired whether the Administration had a definite timetable for installing meters at all the non-metered parking spaces which should be metered. The **Secretary for Transport** stated in his letter of 4 January 2000 that there could be no finite programme for the installation of parking meters as it depended on the pace of urbanisation and the New Town development programme which were on-going. Only a snapshot could be taken at any one particular time. That was why the Transport Department was implementing the metering policy through a five-year rolling programme.

Extending meter operations to Sundays and public holidays

12. Referring to paragraphs 2.15 and 2.16 of the Audit Report, the Committee noted that the Administration had been extending meter operations to Sundays and public holidays since 1982. However, as at 1 April 1999, only 15% (or 2,360) of the 15,520 parking spaces had meters operating on Sundays and public holidays. The Committee asked whether the Transport Department would operate more meters on such days. The Committee also enquired whether the Department's measures could achieve the objective of maintaining a 15% availability rate for on-street parking spaces.

13. In response, the **Commissioner for Transport** stated that :

- the Transport Department's contractor had conducted a survey earlier the year and had identified that the utilisation of parking spaces on Sundays and public holidays was quite heavy in certain areas;

- the Department aimed to extend charges to a further 3,000 meters on Sundays and public holidays. After discussion with the District Councils, the Department could decide on the actual number of spaces to be charged; and

- as regards the 15% availability rate, he understood that the rate was broadly being achieved. Nevertheless, the Department would monitor the situation and require the contractor to carry out regular reviews.

14. The Committee asked whether it was an established practice for the Transport Department to consult the District Councils before extending meter operations to Sundays and public holidays, and whether the District Councils had been consulted before the figure of 3,000 was determined. In reply, the **Commissioner for Transport** said that the contractor had identified through a survey that about 10,000 meters were heavily used on Sundays and public holidays. Out of those 10,000 meters, the Transport Department had identified 3000-odd meters for study in detail to ascertain whether it was necessary to charge them. Following consultation with the District Councils, the Department would be able to decide on the meters to be charged.

15. The **Secretary for Transport** stated that :

- in the policy, there was no target number of meters to be installed every year. It all depended on the actual situation. The Transport Department would keep under regular review the need to adjust the pace of installation;

- with regard to charging on Sundays and public holidays, the Transport Department would focus on the high utilisation areas first to see if meters should be operated in those areas. The Department would have to study the actual situation at each and every location; and

- the Administration did not need to consult the District Councils on the total number of meters to be operated on Sundays and public holidays. Rather, the Administration would consult them on the number and location of the meters to be installed in a particular district.

16. **Mr Peter LUK, Principal Transport Officer (Management)**, added that the Transport Department had indeed consulted the District Councils regarding operating meters on Sundays and public holidays in Causeway Bay, Mong Kok and Wan Chai.

17. The Committee noted that when the Audit Report was first released suggesting that meters should be charged on Sundays and public holidays, there was some strong response from the community. However, the fact that some meters were not operated on Sundays and public holidays was not due to the Administration being generous. Rather, it was due to the shortage of manpower for collecting money from the meters on such days. In view of the public response, the Committee asked whether the Administration would consider providing concessions for members of the public for parking on Sundays and public holidays.

18. In response, the **Secretary for Transport** said that:

- the spirit of the policy was not to increase revenue for the Government. The major consideration for exploring the possibility of charging on Sundays and public holidays was to ensure that there was a sufficiently high availability rate of parking spaces in order to enable members of the public to make use of them on high utilisation days and in high utilisation areas; and

- regarding the possibility of waiving the charge on Sundays and public holidays, the Administration would consider such an idea if it was allowed under traffic management requirements.

19. **Mrs Carrie LAM CHENG Yuet-ngor, Deputy Secretary for the Treasury**, stated that:

- from a revenue point of view, the Finance Bureau supported Audit's recommendations because they could bring in additional revenue;

- however, at present there was no intention to use revenue-raising measures to override traffic management considerations. Hence, regarding the proposal to operate meters on Sundays and public holidays, the Administration's main consideration was traffic management. If there were traffic management needs, the Administration would consider implementing the proposal; and

- while the Finance Bureau did not allocate Government resources based on the amount of revenue that could be collected, it tended to be sympathetic to funding requests for installing additional meters. For example, in 1999-2000, $9 million had been allocated for installing 2,000 electronic meters.

On-street parking for motor cycles

20. According to paragraph 2.28 of the Audit Report, motor-cyclists were not required to pay a fee for using on-street parking spaces, although these was no stated policy to exclude motor-cyclists from paying for the use of parking spaces. Audit was unable to find any documented reasons for this free usage. The Committee asked what the Administration's policy concerning metering of motor cycle parking spaces was.

21. The **Secretary for Transport** stated that at present there was no policy stipulating that the Administration should charge all parking spaces which could be used for the parking of motor cycles. For areas where there was a high utilisation rate, the Administration could apply the 15% availability rate as the benchmark for metering motor cycle parking spaces. However, there were certain technical difficulties that had to be overcome before installation of meters for motor cycles could be implemented.

22. The **Commissioner for Transport** added that the Transport Department agreed in principle that motor cycles should be charged. He would examine the need for provision of parking meters for the 4,300 motor cycle parking spaces on traffic management grounds. This would be subject to the satisfactory resolution of the operational and enforcement problems.

23. Regarding the operational and enforcement problems, the **Commissioner for Transport** and the **Principal Transport Officer (Management)** highlighted the following difficulties and proposed solutions:

- unlike a car, a motor cycle could easily be moved from one spot to another or shoved over to make way for another motor cycle. That was why in the busiest areas there was exceptionally high utilisation of the spaces, even up to 120%;

- it was possible that after a motor-cyclist had parked and paid the meter, a newcomer arriving at the site might just move the motor cycle somewhere else and occupy the space. As a result, the first motor-cyclist might be treated as not having paid the meter;

- the Transport Department was going to launch a trial scheme in early 2000 in three areas in Hong Kong, Kowloon and the New Territories. Railings would be installed in front of the parking space so that the wheel clamps of motor cycles could be attached to the railings; and

- if on-street motor cycle spaces were to be metered, it might also be necessary to charge such spaces in multi-storey carparks on an hourly basis. Yet, difficulties arose because motor-cyclists sometimes might simply bypass the gate when they drove in and out without paying the charge. To resolve the problem, the Transport Department would launch a trial scheme in 13 multi-storey carparks. Both monthly tickets and an hourly rate system would be used.

24. The **Secretary for Transport** stated that while he had no problem about charging motor cycles, the starting point for charging would be to resolve traffic management problems. If there were no traffic management concerns, the Administration might not have to resort to metering. For instance, sometimes motor cycles might be parked in the corner of a flyover. From a traffic management point of view such a practice did not impede traffic flow. As such, it might not be necessary to meter the spaces.

25. In his letter of 4 January 2000, the **Secretary for Transport** further stated that according to their research, it was not a common practice worldwide to meter on-street parking spaces for motor cycles. He assured the Committee that the Transport Department would continue to actively find ways to address the operational and enforcement difficulties.

26. The **Deputy Secretary for the Treasury** stated that the overall principle that revenue-raising measures should not override traffic management consideration also applied to the charging of motor cycle parking spaces. Hence, in deciding whether or not to meter such spaces, the Administration had to consider the traffic management angle first.

Contract for the management of parking meters

27. Paragraphs 3.15 and 3.16 of the Audit Report revealed that the current contract for the management of all on-street parking meters in the territory was for a period of four years ending in September 2001. The tendering exercise was conducted in mid-1997. Of the three pre-qualified tenderers invited to tender, only one submitted a bid. Audit considered that due to the lack of competition, it was questionable whether the bid submitted was reasonably priced. Against this background, the Committee asked why the other two pre-qualified tenderers did not submit a bid.

28. The **Commissioner for Transport** informed the Committee that:

- after the tendering exercise, the Transport Department had asked the two tenderers the reasons for not submitting a bid and found that they were discouraged by the risks and uncertainties in the contract;

- actually, the Transport Department had along been working towards the objective of removing as many constraints and uncertainties from the contract as possible. In the last tendering exercise, the Department had extended the previous contract by six months to tie in with the award of the electronic parking device (EPD) supply contract. By delaying the commencement of the new contract, the Department made sure that the tenderers had more information which they needed in order to assess the new contract. Because of the uncertainties of the unit cost of an e-park card and the consumption rate, the cost of the card was borne by the Government; and

- in the next tendering exercise, the Transport Department would continue to remove the uncertainties and have them borne by the Government. However, there might still be uncertainties to some extent because at this stage, it was not sure how the EPD system would be developed when other smart cards were built on to it.

29. The Committee noted that Audit had recommended the Commissioner for Transport to carry out a post-tender evaluation on the last tendering exercise. The Committee asked whether this had been carried out and what the outcome was. In reply, the **Principal Transport Officer (Management)** stated that:

- the Transport Department had discussed with the two tenderers the reasons for not submitting a bid. It was found that although the Department had borne some of the risks, there were still a lot of uncertainties in the contract. For example, as the utilisation rate of e-park cards and the timetable for converting all meters to electronic ones were not known at that time, the contractor might have to maintain two teams of staff, one for collection of coins and the other for managing the electronic meters;

- according to the contract, the contractor was to be responsible for publicising the e-park cards and providing e-park card ambassadors to sell the cards at convenience stores, etc. The tenderers were worried that they did not have sufficient staff to take care of the different aspects of the contract; and

- in the next tendering exercise in 2001, apart from removing uncertainties, the Transport Department would try to interest as many parties as possible. It would notify all organisations concerned of the exercise, including consulates and overseas meter manufacturing or supplying companies, with a view to attracting more parties to submit a bid.

30. As regards the Audit's recommendation that consideration be given to splitting the contract into two or three parts, the Committee asked what the Administration's stance was. The **Commissioner for Transport** said that:

- the Transport Department had examined the idea before the current contract was tendered out. The result of the study showed that because of the diseconomy of scale, the cost would far outweigh the benefit. The assessment was that the additional cost to the Government would be about $10 million a year; and

- the Department would re-examine the pros and cons before the next tendering exercise.

Electronic parking devices

31. The Committee noted from the second inset of paragraph 4.20 of the Audit Report that the Transport Department was vigorously pursuing the opening up of the e-park card system to other smart card systems. The Committee enquired what the progress so far was. In response, the **Commissioner for Transport** said that:

- the Transport Department's approach was to introduce the EPDs as the base on which smart card technology could be built. The Department would be commencing a trial in early 2000 with Visa Cash and Mondex to try out their cards in two separate areas;

- the Department was also examining the feasibility of using the Octopus and a trial scheme would be launched in mid-2000. The trial period might last for about six months; and

- it was the Department's objective to complete the trials with the Octopus, Visa Cash and Mondex within 2000 so that by the time the next contract was tendered out, the future was clear. As such, uncertainties in the contract could be removed as far as possible.

32. The Committee further asked about the revenue that could be brought in by the electronic meters and the timetable for adopting new smart card systems. The **Commissioner for Transport** said that :

- the introduction of the EPDs had been extremely successful in protecting Government revenue. The new electronic meters were much more reliable. For instance, in Wanchai, Tsim Sha Tsui and Tsuen Wan, the number of justified complaints about defective meters had been reduced from over 6,000 to under 1,000, which meant that the parking meters were operating more effectively. In addition, the utilisation rate had increased from 60% to 76%. The repair time had decreased from 60 minutes to 45 minutes; and

- for the time being it would be too early to decide what the right route was and the timetable of implementation. In studying the possibility of introducing other types of smart card, the Transport Department would consider both the convenience to the public and the cost to the Government. In particular, the cost of maintaining the existing system would be compared to that of the possible future ones. The Department would draw up some preliminary conclusions about the time-frame of implementation when the trial schemes came to the end.

33. According to paragraph 4.17 of the Audit Report, back in January 1996 the Transport Department had mentioned the feasibility of adopting an open card system with the Electrical and Mechanical Services Department. Then in April 1996, the Transport Department decided to adopt a closed card system. The Committee asked why such a decision was made.

34. **Mr LEUNG Cham-tim, Director of Electrical and Mechanical Services**, stated that:

- at the time the choice was made, the open card technology was not mature; and

- the Administration had all along recognised the growing importance of the open system and the e-park card contractor was required to provide trial schemes to test whether the open card system could be used in the parking meters.

35. Responding to the question why the Administration had opted for the e-park card but not the Octopus, the **Secretary for Transport** stated that:

- the Octopus was not yet available at the time when the Administration put the e-park cards to trial. Even today, in terms of on-street parking, the Octopus technology was not mature; and

- it was still not absolutely sure that the Octopus system could be used for carpark metering. At present, there was a trial at Telford Garden carparks to see how the Octopus could be used in metering multi-storey carparks.

36. In view of the growing popularity of the Octopus, the Committee enquired how the Administration would strike a balance between convenience to the public and the need to avoid the development of a monopolistic situation. The **Secretary for Transport** responded that for the sake of convenience, if smart cards were to be adopted, members of the public would prefer using one or two, instead of a dozen, cards for riding on various types of transports. Hence, the Administration would have to take this into account when deciding whether to allow one or several contractors to provide the service. He admitted that it would not be easy to strike a balance.

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

On-street parking

- note:

  (i) the Secretary for Transport's statement that the policy of metering parking spaces is based on traffic management rather than revenue-raising grounds; and

  (ii) the Deputy Secretary for the Treasury's statements that revenue-raising should not override traffic management considerations, and that the Finance Bureau tends to be sympathetic to funding requests for installing additional meters;

- observe from existing available records that:

  (i) in a submission by the Transport Advisory Committee in 1967, it was stated that the Government's principle of on-street parking, as accepted by the Executive Council (ExCo), was to maintain a 15% availability rate;

(ii) in 1972, the ExCo accepted the Administration's proposal that the period of charging for metered spaces should be extended to include Sundays and public holidays; and

(iii) in an ExCo Memorandum in 1981, it was stated that:

(a) there would be a programme for the extension of meter operations to Sundays and public holidays in 1983-84; and

(b) it was the Administration's eventual aim to extend metering to all parts of the urban areas and the New Towns where on-street parking could be permitted;

- express concern that the Administration's metering policy, which is predicated on first identifying the need and then exercising control to meet traffic management objectives, may contradict the policy aim stated in the 1981 ExCo Memorandum, which is to extend metering to all parts of the urban areas and the New Towns;

- recommend that the Secretary for Transport clarify the metering policy with ExCo;

- express dissatisfaction that:

(i) for over 30 years, the policy of maintaining a 15% availability rate has not been fully implemented; and

(ii) for nearly 20 years, the Administration has not conducted comprehensive utilisation surveys to ascertain if there are transport management needs to meter parking spaces in built-up areas;

- recommend that the Commissioner for Transport should:

(i) conduct periodical utilisation surveys of non-metered parking spaces and metered parking spaces on Sundays and public holidays;

(ii) consult the relevant District Councils to ascertain whether there is a traffic management need for metering the non-metered parking spaces and extending meter operations to Sundays and public holidays; and

(iii) having regard to the outcome of the surveys and the District Councils' views, seek funding to install meters for non-metered parking spaces and extend meter operations to Sundays and public holidays for parking spaces which have traffic management justifications and a high utilisation rate;

- note the Commissioner for Transport's statement that motor-cyclists should be charged for the use of on-street parking spaces, but there are operational and enforcement problems;

- urge the Commissioner for Transport to fully evaluate the feasibility of different solutions to the operational and enforcement problems in the light of latest technologies available and consider charging a fee for the use of on-street motor cycle parking spaces with a high utilisation rate;

Contract for the management of parking meters

- express concern that the two-tiered revenue sharing formula used in the contract for the management of parking meters is not effective in preventing the contractor from reaping windfall profits arising from increases in on-street parking charges;

- recommend that the Administration should critically examine the two-tiered revenue sharing formula so as to ensure that the contractor will recover no more than the marginal cost of implementing Government's decision to increase on-street parking charges;

- express concern that due to the uncertainties arising from the conversion to electronic parking device and the contractors' responsibility for promoting and selling e-park cards, there was only one bid for the current contract for the management of parking meters;

- urge the Administration to increase competition and remove the uncertainties in the next tendering exercise, so as to avoid the occurrence of a monopolistic situation which may not be conducive to getting the best value for money, by:

  (i) providing objective criteria for evaluating the adoption of various latest technologies in electronic fee collection;

  (ii) identifying and removing as many as possible the constraints and uncertainties from the contract; and

  (iii) examining the pros and cons of splitting the meter management contract into two or three contracts or parts;

Electronic parking devices

- express concern that $4.1 million could have been saved if electronic parking meters had been installed instead of the pay-and-display machines (PDMs);

- wish to be kept informed of the outcome of the re-examination of the justifications for installing additional PDMs;

- note that the Administration is examining the feasibility of opening up the e-park card system to other smart cards and will conduct a trial with the Octopus by mid-2000;

- recommend that the Administration keep the Legislative Council informed of the various latest technologies available in electronic fee collection and the results of the trials with the Octopus and other smart cards;

Special parking facilities

- note that the traffic management objective of the trial scheme at Sheung Shui, which is to reduce traffic congestion, may not have been achieved;

- express concern that the planned park-and-ride parking facilities at the six new railway stations to be built in the next five years will require considerable land space;

- consider that such facilities, if properly promoted and well-utilised, can produce substantial environmental benefits;

- recommend that the Administration should:

  (i) review the park-and-ride trial scheme to ascertain whether, and to what extent, the traffic management objective of reducing traffic congestion in urban areas has been achieved;

  (ii) conduct a cost-benefit analysis for park-and-ride facilities taking into account the benefits to the environment as well as the economic cost of the land space used; and

  (iii) based on the results of the above review/analysis, reassess the future provision of park-and-ride facilities at the Sheung Shui Railway Station and other railway stations;

- express concern about the high incidence of non-compliance with the Hong Kong Planning Standards and Guidelines (HKPSG); and

- recommend that the Administration should review the need for revising the HKPSG in view of the high incidence of non-compliance cases.

The Committee noted that Audit had conducted a review of the services for students with special educational needs and for preventing student suicide.

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

3. Regarding placement opportunities for mentally handicapped students, the Committee noted from paragraph 2.20 of the Audit Report that resources had been earmarked by the Administration to provide about 3,400 additional day service and residential places for moderately and severely mentally handicapped persons in coming years. In this connection, the Committee asked the Secretary for Health and Welfare:

- whether resources had been committed for providing these additional places;

- the detailed plan for providing the places; and

- the anticipated reduction in waiting time for the services upon provision of the additional places.

4. The Committee were aware that the Director of Audit had recommended that the Director of Education should, inter alia, identify key outcome performance indicators so as to assess the extent of achievement of the objectives of special education, and take positive action to expedite the integration of students with special educational needs into mainstream schools. The Committee enquired about the progress made by the Director of Education in establishing the performance indicators and in extending the integration scheme to 21 schools in 1999-2000 and 40 schools in 2000-2001.

5. The **Secretary for Health and Welfare** responded to the Committee's enquiries in his letter of 14 December 1999 in ***Appendix 14***, and the **Director of Education** responded in her letter of 14 December 1999 in ***Appendix 15***. The Committee took note of the information provided therein.

The Committee noted that Audit had conducted a review of the framework for the administration of allowances in the civil service and of the following allowances:

- the Independent Commission Against Corruption (ICAC) post allowance;

- home-to-office travelling allowance (HOTA);

- mileage allowance;

- furniture and domestic appliances allowance (FDAA);

- dialect allowance;

- overtime allowance (OTA); and

- acting allowance.

Framework for the administration of allowances

2. The Committee noted from paragraph 2.2 of the Audit Report that the Committee on Allowances (COA), set up in August 1977, was responsible for keeping under regular review the incidence and rates of the allowances. Before 1980, the COA held regular meetings to review various allowances. However, in 1980, the COA decided that it should only consider questions of policy on allowances and had not initiated any review of allowances thereafter. Regular formal meetings had been replaced by exchange of correspondence. The Committee queried how, in the circumstances, the Civil Service Bureau (CSB) and the Finance Bureau (FB) could keep the various allowances up-to-date.

3. **Mr LAM Woon-kwong, Secretary for the Civil Service**, responded that:

- because there were other mechanisms for close liaison between the CSB and the FB concerning resources and policies, there was no need to hold intensive discussions in the COA; and

- notwithstanding that no formal meetings had been held by the COA, there had been reviews on allowances. In view of Audit's comments on the COA, the CSB was liaising with the FB about the need to re-activate the mechanism for reviewing allowances.

4. According to paragraph 2.3 of the Audit Report, the Standing Commission on Civil Service Salaries and Conditions of Service (Standing Commission) had performed two reviews on the overall system of job-related allowances in 1986 and 1991. The Committee asked what the contents and results of the two reviews were, and whether the Standing Commission had recommended elimination of any allowances.

5. In reply, **Mr Duncan Pescod, Deputy Secretary for the Civil Service**, stated that:

- the Standing Commission was one of the three committees which advised the Administration on matters affecting civil service pay and conditions of service. The CSB referred to the Standing Commission issues that needed a particular review or advice. The CSB would then follow up the advice. Over the last 10 years, of the 14 exercises on job-related allowances, the Standing Commission had recommended that one allowance be deleted, two allowances be re-classified and others be continued. The recommendations made were subject to the circumstances of particular allowances; and

- in May 1999, the CSB had commissioned the Standing Commission to undertake a comprehensive review of job-related allowances. The review would cover the system to monitor and update various allowances. The review was expected to be completed in mid-2000 and the CSB would definitely take forward the recommendations.

6. At the Committee's request, the **Secretary for the Civil Service**, in his letter of 15 December 1999 in ***Appendix 16***, informed the Committee of the outcome and effectiveness of the Standing Commission's two reviews on job-related allowances. He stated that:

- in the 1983 exercise, the Standing Commission set out the role of the job-related allowances in the civil service, laid down the general principles governing these allowances, and reviewed the rates, categorisation and administration of allowances. The review took two years to complete and the Standing Commission published the results in its Report No. 15 in 1986. The main principles established in the Report for job-related allowances were now still in force; and

- in 1991, the Standing Commission undertook a minor review on the rates, eligibility and categories of job-related allowances. The review confirmed the general validity of the framework for job-related allowances established in its Report No. 15.

7. The Committee were concerned about the lack of a mechanism for reviewing the various allowances on a regular basis. Referring to paragraph 2.10 of the Audit Report, the Committee noted Audit's view that although there was a system for reviews to be undertaken at the operational level by Heads of Department (HODs), they were not in the best position to review whether an allowance was justified at the policy level. The Committee shared Audit's comment and considered that as HODs were also entitled to some of the allowances, it might not be appropriate for them to review the allowances due to conflict of interest. Moreover, they might give unduly heavy weight to staff morale and might not want to arouse discontent of their own staff. In the circumstances, the Committee asked whether the CSB had considered not allowing HODs to conduct such reviews.

8. Responding to the Committee's concern, the **Secretary for the Civil Service** stated that:

- the CSB had devolved the responsibility for reviewing individual allowances to HODs so that, according to the operational needs of their own departments, they could assess whether certain allowances should continue. Even if there was justification to continue the allowances, HODs could evaluate whether the allowances should continue to be disbursed to such a number of staff within their departments. If HODs discovered that there were certain allowances which were no longer necessary or they felt that such allowances were not adequate for attracting people to their departments, they could advise the CSB;

- from time to time, the CSB did take the initiative in reviewing different allowances. As an example, back in 1992, the CSB had already identified the ICAC post allowance as outdated. Therefore, the whole process was an interactive one;

- even when the CSB had made a decision, it would not implement it unilaterally. It would invite the Standing Commission to examine the issue because the Standing Commission was regarded as a third party and would be able to give independent comment on the CSB's decision; and

- the CSB would consider whether the regular review should be conducted by HODs or by the CSB on a more frequent basis, taking into account Audit's comments.

9. The **Deputy Secretary for the Civil Service** stated that:

- the reviews of policy were performed by the CSB with the advice of the Standing Commission and the Standing Committee on Disciplined Services Salaries and Conditions of Service (Standing Committee), not by the HODs. This was an important control to ensure that there was no conflict of interest. HODs were only requested to review the operational need for the various allowances, which did change from time to time; and

- directorate officers were not entitled to most of the allowances, one example being the ICAC post allowance. Thus, there was no conflict of interest in asking HODs to undertake reviews at the operational level. Nevertheless, if a HOD felt uncomfortable conducting a particular review, he could refer that back to the CSB and the CSB would find other ways to conduct the review.

10. At the Committee's invitation, **Mr Dominic CHAN Yin-tat, Director of Audit**, responded that:

- he shared the view of the CSB that it was a good practice for a party outside the civil service structure to conduct the reviews on allowances; and

- it was preferable to have the Standing Commission/Standing Committee and the CSB reviewing the allowances in conjunction, rather than to have only one party performing the review.

11. The Committee noted from the Audit Report that sometimes HODs might have reservations about withdrawing or altering certain allowances because they did not want to adversely affect staff morale. The Committee enquired whether the CSB had laid down any criteria for measuring staff morale and the weight the CSB should give to the importance of staff morale.

12. The **Deputy Secretary for the Civil Service** informed the Committee that:

- there were clear guidelines available for HODs when they were requested to examine the continuing need for a particular allowance. The guidelines were set out in the regulations governing individual allowances, which HODs had to follow when conducting their reviews;

- as for staff morale, that was a judgement that HODs had to take. The CSB could not impose the criteria centrally because HODs had to take into account their operational need. Where the CSB considered that the HODs were not firm enough, the CSB would step in and discuss with the HODs concerned to obtain an understanding as to why they considered the issue of staff morale to be overriding;

- the weight that should be given to the importance of staff morale could not be specified. It depended on the circumstances. In one department staff morale might be an important issue while in another department, staff retention and motivation might be the issue; and

- there were a number of ways to deal with the issue of staff morale. For example, counselling service was available. As for job-related allowances, such as typhoon duty allowance and black rainstorm duty allowance, they were specific to the particular situation that a department had to face.

"Non-deprivation of existing benefits"

13. According to the third inset of paragraph 2.17 of the Audit Report, there were legal constraints on the CSB in withdrawing existing benefits from serving civil servants. The Committee asked:

- whether the principle of "non-deprivation of existing benefits" could be changed and the legal implications; and

- whether the CSB had sought legal advice on the issue.

14. The **Secretary for the Civil Service** explained that:

- there were two categories of allowances, namely fringe benefits and job-related allowances. Fringe benefits, though might be provided in the form of allowances, were offered to eligible officers as part of their terms of appointment. In other words, these were contractual provisions. Examples were housing allowance and education allowance;

- job-related allowances, such as typhoon allowance, dangerous duties allowance, overtime allowance and acting allowance, did not constitute part of the contract of employment. This category of allowances was not safeguarded by law and its continuation would depend on the needs;

- all through the years the Administration had respected the contractual provisions concerning allowances. However, it did not mean that they could not be changed. For instance, there was a major change to the housing allowance about 10 years ago. The provision of quarters was eventually changed to the home finance allowance, etc. The representatives of the staff councils had been consulted and their agreement to the changes obtained. Another example was the overseas education allowance, which was deleted several years ago; and

- because the Administration respected contractual provisions, changes to fringe benefits were only applicable to new recruits. Whenever the CSB carried out a review or made changes to fringe benefits, it would seek legal advice. Regarding the legal implications of making unilateral changes, that was hypothetical because throughout the years, the Administration had not tried to do that.

15. In the light of the Secretary for the Civil Service's response, the Committee asked whether there were legal constraints on abolishing job-related allowances and whether the principle of 'non-deprivation of existing benefits" applied to such allowances. The **Deputy Secretary for the Civil Service** said that:

- the principle applied primarily to allowances which were contractually obligated but not job-related allowances. Job-related allowances could be stopped and changed subject to the need. When a job-related allowance was abolished, every person who was previously qualified to receive the allowance would no longer be qualified. There were precedents where the Administration had removed such allowances from staff. In 1992, the extraneous duties allowance (supplementary duty level 1) was abolished; and

- as circumstances changed within a department, even though an allowance might remain extant, the beneficiaries might change. Hence, there was no restriction on the Administration's ability to change the job-related allowances.

16. Responding to the Committee's question, the **Deputy Secretary for the Civil Service** confirmed that out of the seven allowances reviewed by Audit, only the furniture and domestic appliances allowance was regarded as a fringe benefit. The rest were all job-related allowances.

17. On the question of the Administration's power to alter the conditions of service of the civil service, the Committee noted from paragraph 2.12 of the Audit Report that the memorandum on conditions of service (MOCS) stated that the Government had the right to modify the terms of appointment and conditions of service. It thus appeared that there were legal grounds on the basis of which the Government could modify contractual provisions. The Committee asked about the Administration's stance on the issue and whether it was a golden rule that certain benefits, even though they were outmoded, could not be changed without the consent of the staff side.

18. The **Secretary for the Civil Service** stated that:

- according to the MOCS, the Government as the employer did have great power. However, the reality was that the CSB could not consider the matter solely from a purely legal point of view. As a good employer, the Government did not want to arbitrarily and unilaterally alter any contractual benefits without first obtaining the staff's consent. In the Government's perspective, when the Government first employed the staff, it had informed them that they could enjoy certain fringe benefits. Such benefits were therefore contractual obligations that an employer should honour;

- other factors that had to be considered included staff morale, the HOD's ability to handle staff morale if such benefits were withdrawn, public opinion concerning the unilateral withdrawal of such benefits and the response of Legislative Council Members to such a move by the CSB, etc. Thus, when the CSB reviewed fringe benefits, it was inclined to be more generous to the staff;

- it was difficult to comment whether there would be legal problems if the CSB was to withdraw a fringe benefit. It would be up to the court to decide whether by so doing, the Government was in breach of the contract; and

- nevertheless, the Administration did agree that it had to strike a balance between being a good employer and its accountability for public expenditure. When the Administration reviewed civil service benefits, it would first consider whether the staff side would accept the changes before putting forward the proposals.

19. The Committee enquired whether there were any documents setting out what constituted fringe benefits and which provision in the MOCS empowered the Government to change the conditions of service. In his letter of 15 December 1999 in ***Appendix 16***, the **Secretary for the Civil Service** provided the Committee with the requisite information. He stated that:

- the terms of appointment and conditions of service of civil servants were set out in a MOCS attached to the appointment letter when an appointment was made. The MOCS set out the details of the employment conditions and the remuneration package provided to the recruit. It served as an employment agreement between the Government and the employee. The recruit was offered the benefits as detailed in the relevant sections of the MOCS when he accepted the appointment;

- the MOCS did not contain any separate section on job-related allowances because such allowances were only provided on grounds of operational need and were not granted as an entitlement to individual civil servants. Provisions on eligibility and payment of these allowances were set out in the Civil Service Regulations, CSB circulars and departmental guidelines; and

- there was a standard clause in the MOCS stating that the Government reserved the right to alter any of the terms of appointment or conditions of service of an officer as set out in the MOCS when the Government considered this to be necessary.

20. As to the Committee's question on case law relating to alteration of terms and conditions of employment by the Government, the **Secretary for the Civil Service** stated in his letter of 15 December 1999 that:

- in the court case of LAM Yuk-ming & Others, the court held that as the initial terms of service made it clear to the public officer that such a power was reserved to the Government, the terms of the contract between the Government and its public servants was capable of unilateral variation;

- despite the above case and the legal power set out in the MOCS, the Government had always observed the convention that being a responsible employer, it was not appropriate to unilaterally withdraw existing benefits from serving civil servants. The staff had legitimate expectation that the terms of the MOCS would be enforced;

- even though from the private law point of view, unilateral variation of the conditions of service by the Government was permissible, civil servants had a legitimate expectation and a right in public law to be consulted and to make representations before a decision was made; and

- it had been the Government's long-standing practice to consult the staff side before making significant variations to their terms of employment. The case of the Council of Civil Service Unions v Minister for the Civil Service emphasized the importance of staff consultation.

21. In the same letter, the **Secretary for the Civil Service** described the established procedure of staff consultation in the civil service. He said that:

- the Government undertook in the 1968 Agreement signed between the Hong Kong Government and the main staff associations that the Government should not make any significant change to the conditions of service which affected a substantial part of the service as a whole, or of the members of one or more of the main staff associations, without prior consultation with the appropriate associations;

- if agreement could not be reached after the consultation, the dispute might be referred to an independent Committee of Inquiry appointed by the Chief Executive for investigation. A Committee of Inquiry was last called in in 1988 when there was a dispute between the Government and staff over the 1988 pay adjustment. The Committee made a number of recommendation in 1989 on revising the civil service pay determination system and the Government accepted most of them. The Administration had strictly observed this consultation mechanism for more than three decades; and

- it was in this light that the Administration's practice of applying changes to conditions of service only for new recruits had evolved. When practicable, the Administration made these changes available as an option for serving staff such that those who found the new conditions agreeable might opt for them. In this way, the Government was not acting arbitrarily against legitimate staff interests.

22. Referring to the Committee of Inquiry, the Committee asked whether its recommendations were binding on both the Government and the staff side. In his letter of 24 December 1999 in ***Appendix 17***, the **Secretary for the Civil Service** informed the Committee that:

- according to the 1968 Agreement, the Committee of Inquiry would submit its recommendations to the Chief Executive (the then Governor). The recommendations would be binding on the Government and the staff associations provided they were acceptable to both parties. The Committee of Inquiry might also make reference to the Chief Executive -in-Council and/or the Legislative Council on the need for further consultation with the staff side; and

- the system of appointing a Committee of Inquiry to arbitrate provided for a fair and impartial mechanism to resolve disputes between the Government and the staff side. The Government would accept the Committee of Inquiry's recommendations where practicable.

23. On the principle of "non-deprivation of existing benefits", the Committee asked whether that was simply a convention or an established policy which had been endorsed by the Executive Council (ExCo) or the COA. The **Secretary for the Civil Service**, in his letter of 13 January 2000 in ***Appendix 18***, informed the Committee that:

- the COA had not considered the principle of "non-deprivation of existing benefits". The COA was charged with the responsibility for reviewing the incidence and rates of job-related allowances only. The issue of withdrawal of existing benefits applied to those fringe benefits and related allowances which were covered by the MOCS. Reviewing the provision of fringe benefits to civil servants did not fall within the purview of the COA; and

- when the Administration introduced any changes to conditions of service, it usually made the changes available as an option for serving staff. It did not compel the staff to accept the changes without their consent. The arrangements in each case were set out clearly in the relevant submission when policy approval from the ExCo was sought.

ICAC post allowance

24. The Committee noted from paragraph 3.11 of the Audit Report that since 1989-90, the ICAC had not experienced recruitment and retention difficulties. Thus, Audit considered that it was questionable whether the continued payment of the ICAC post allowance was justified. The Committee asked why the Commissioner, ICAC, as recorded in the Audit Report, considered that the allowance was not outdated in present-day circumstances.

25. **Mr Alan LAI Nin, Commissioner, ICAC**, said that:

- the considerations for the introduction of the ICAC post allowance in 1974 were still relevant today, although the weighting had changed as the monetary values of the allowance had reduced over the years. Nowadays, ICAC officers still found themselves kept at arm's length by other people. Moreover, the allowance served as a symbol of the Government's recognition of the contribution and importance of ICAC officers; and

- any attempt to abolish the allowance would create a feeling in the officers that their efforts were no longer recognized and staff morale would be damaged as a result. If the allowance was to be withdrawn, some staff might even think that their conditions of service were changed and might resort to litigation.

26. In the light of the response of the Commissioner, ICAC, the Committee considered that over the years, what was originally an allowance had become a fringe benefit in the eyes of the staff. At the Committee's invitation, the **Deputy Secretary for the Civil Service** confirmed that the ICAC post allowance was a job-related allowance, not a fringe benefit. It would be covered in the review of job-related allowances by the Standing Committee.

27. Given that ICAC staff perceived the ICAC post allowance as part of their conditions of service, the Committee asked whether the ICAC would rationalise the arrangement and include the allowance as part of the remuneration package of ICAC staff. The **Commissioner, ICAC** said that he would consider this carefully in the course of the review.

28. The Committee referred to paragraph 3.10 of the Audit Report which revealed that in 1996, the ICAC recruited 76 Assistant Investigators from over 1,800 applicants. In 1997, 66 Assistant Investigators were selected from over 2,100 applicants. The good response suggested that the job was very popular. The Committee queried why the ICAC claimed that the jobs were obnoxious where nobody would like to take up. The **Commissioner, ICAC** stated that the figures were relative. Compared to jobs in other departments, the number of applicants for those jobs might even be greater.

29. The Committee further asked whether the ICAC staff had been consulted on the proposed abolition of the ICAC post allowance and whether they were really concerned about withdrawing the allowance, which was of small monetary value. The **Commissioner, ICAC** said that:

- he understood that the CSB was carrying out a review on the allowance and he did not want to create public opinion. The staff associations would be consulted in the course of the review; and

- in the last review by the CSB, the views of the management had been gauged.

30. To understand whether the work nature of the ICAC was unpopular and if the ICAC had any recruitment difficulties, the Committee asked how the education qualifications of the new entrants compared to those of the entrants several years ago. The **Commissioner, ICAC** said that, similar to other disciplined services, in recent years the ICAC was able to recruit people with university qualifications to take up posts at lower ranks. The ICAC would not hire people who were not up to the standard.

31. The Committee asked what actions the CSB would take to enhance the esteem of ICAC staff so that a proper weight would be given to the importance of the allowance. In reply, the **Secretary for the Civil Service** stated that:

- to enhance staff esteem, the CSB's focus was on human resource management. It was hoped that staff morale could be enhanced through improved communication, management methods and in-house training, etc.; and

- staff morale, however, was also affected by some external factors beyond the Administration's control, such as the public opinion on the performance of civil servants.

Home-to-office travelling allowance

32. Referring to paragraph 4.18 of Audit Report, the Committee noted that the Administration was aware of the need to review the HOTA as early as 1975 and had set the long-term objective of moving towards its abolition. In addition, in paragraph 4.11 of the Report, Audit considered that the HOTA had become outdated. Against this background, the Committee enquired whether the CSB agreed with the Audit's comment and whether there was a plan to delete the allowance.

33. The **Deputy Secretary for the Civil Service** stated that:

- the CSB had no dispute with the Audit's rationale and comment. The CSB had completed a review on the HOTA and would shortly put forward proposals to the Legislative Council for abolishing the allowance and replacing it with a new arrangement, taking into account the need to compensate officers who were posted to remote offices;

- the CSB considered that it was still necessary to provide some form of compensation for officers who were required to travel long distances to their place of work because, unlike the private sector where most employees were employed to work within a defined location, civil servants could be deployed anywhere within the territory. Therefore, there was a need to compensate them for the expense beyond the normal level of travel costs; and

- under the new arrangement, there would be a list of designated remote locations including such places as the border area, some outlying islands and remote locations within Sai Kung. There would also be a regular review mechanism to ensure that the list was updated on a regular basis and the allowances were kept within reasonable levels. The allowances would be adjusted according to Consumer Price Index (A) so that the allowances would be kept in step with the costs.

34. The Committee were concerned about the possible staff reaction to the proposed abolition of the HOTA and asked:

- whether the staff unions had been consulted; and

- whether the Administration would try to post civil servants to offices close to their residence so as to avoid long home-to-office journeys.

35. The **Deputy Secretary for the Civil Service** stated that:

- the staff unions had been consulted and they had accepted the proposal. In fact, during the course of consultation, the proposals had been modified slightly to accommodate some of the unions' concerns. The Standing Commission had also been consulted and the Standing Committee was being consulted. It was expected that the new package would be acceptable to all parties concerned; and

- as for postings, there were a large number of officers who had to work on the border, including immigration officers, customs officers and police officers. While the Administration gave due regard to the need to avoid long home-to-office journeys, that was not an overriding consideration. It was possible that during the course of an officer's career he might be working near where he lived, then he might be posted to another location within two or three years.

36. The Committee understood that since its introduction, the HOTA had been reviewed in 1975, 1984 and 1992. However, as revealed by paragraph 4.18 of the Audit Report, throughout the years reaction of the staff side had been the major obstacle to revising the terms of the HOTA. Noting that the staff unions had agreed to the new package after consultation, the Committee enquired whether the Administration had gone through the formal consultation procedure in the past reviews before concluding that there would likely be very strong reaction from the staff if the HOTA was abolished.

37. The **Deputy Secretary for the Civil Service** stated that the circumstances in 1999 were sufficiently different from those in 1975, 1984 and 1992. Hence, the consultation exercises should be perceived in context.

38. In his letter of 24 December 1999 in ***Appendix 17***, the **Secretary for the Civil Service** provided the details of the three reviews of the HOTA as follows:

- the 1975 working party focused on ways to economise on payment of the home-to-office-mileage allowance (HOMA). It also considered the option of abolishing the payment of home-to-office travelling expenses (HOTE) but recognised that many outlying offices remained inadequately served by public transport. The Administration in the end formally consulted the staff sides of its intention to tighten up the payment of the HOTE. The no-claim limit was subsequently raised although not without staff objection. Abolition of the HOTE was considered as a long-term objective;

- after reviewing the subject again in 1984, the Administration maintained that the abolition of the HOTE should remain as a long-term objective. Proposals were then formally put forward to the staff side again to tighten up the payment of the HOTE. These included the exclusion of Tsuen Wan, Kwai Chung and Shatin from eligible areas for claiming the traveling allowance but the proposal was finally dropped due to strong objection from the staff side. Nevertheless, a revised method on adjusting the no-claim limit with reference to prevailing bus fares was agreed; and

- in 1992, the Administration conducted its third review aiming again at excluding Tsuen Wan, Kwai Chung and Shatin from the areas for payment of the HOTE. Major departments with the largest expenditure on the HOTE/HOMA (namely, Fire Services Department, Regional Services Department, Agriculture and Fisheries department, Department of Health, Hospital Services Department and Royal Hong Kong Police Force) were asked to gauge the staff reaction to the proposal. The advice received was that staff would object strongly to the proposal and that there would be serious posting problems. In view of the adverse implications, the Administration considered it not opportune to pursue the proposal.

Mileage allowance

39. The Committee asked for the CSB's comment on Audit's view recorded in paragraph 5.18 of the Audit Report that there were over-generous incentive elements in the existing formula for determining the rates of mileage allowance.

40. The **Deputy Secretary for the Civil Service** said that:

- the CSB did not consider that the provision of mileage allowance had too much of an incentive side. The Administration's objective was to provide fair recompense for officers who used their private cars for duty purposes;

- under the Civil Service Regulations, officers had to obtain approval before they could use their private cars for duty journeys and they must demonstrate that they had actually used their cars for duty purposes; and

- in some cases, efficiency was indeed enhanced and public expenditure saved when an officer used his car for accessing a remote location because there was no need to tie up a government vehicle and driver.

41. At the Committee's invitation, the **Director of Audit** clarified that he did not consider the entire mileage allowance to be over-generous. For example, fuel cost, being the direct cost incurred by an officer in using his car for duty journeys, should be reimbursed. However, reimbursing the maintenance cost and the fixed cost was over-generous.

42. The Committee noted from paragraph 5.19(f) of the Audit Report that there would be a review on the mileage allowance and enquired what the progress so far was. The **Deputy Secretary for the Civil Service** replied that:

- the CSB would undertake a review on the provision of duty mileage allowance, including the payment formula, to make sure that it was up-to-date and reasonable; and

- at present, the review had not yet commenced. Once commenced, he expected that it would take between four to six months to complete. The staff side would be consulted once a proposal was drawn up.

Furniture and domestic appliances allowance

43. Regarding the FDAA, the Committee noted from paragraph 6.5 of the Audit Report that the CSB held the view that the FDAA was part of the conditions of service which could not be withdrawn from serving officers unless they were willing to forgo such benefits. The Committee enquired when the FDAA first appeared as a condition of service of the civil service.

44. In his letter of 24 December 1999 in ***Appendix 17***, the **Secretary for the Civil Service** informed the Committee of the origin of the FDAA. It was stated that:

- the FDAA was payable in lieu of the supply of furniture and domestic appliances (FDA) to staff eligible for quarters. The origin of the supply of FDA dated back to the 1950s. At the time, it was determined that the rent paid by officers for their quarters included charges for quarters, furniture and refrigerators. Therefore, officers who were provided with quarters were also entitled to the provision of FDA by the Government. In those days, if an officer did not draw any furniture item, $25 would be deducted from his monthly rent. If no refrigerator was supplied, $5 would be deducted. The rent deduction was later transformed into allowances (i.e. the FDAA); and

- the origin and development of the FDAA could be traced back to the then Colonial Secretary's memo of 20 October 1955, an extract from a Finance Committee paper of 10 August 1960 and Establishment Regulation 862 in 1964.

45. According to paragraph 6.4 of the Audit Report, when the Home Purchase Scheme (HPS) was introduced in 1981, officers (on or above the old Master Pay Scale Point 38) receiving assistance under the HPS would be eligible for the FDAA. Paragraphs 6.5 to 6.7 revealed that since 1982, the FB had queried whether HPS beneficiaries should be eligible for the FDAA. In February 1988, the CSB finally agreed to abolish the FDAA for officers joining the HPS on or after 1 October 1990. In this connection, the Committee asked about the CSB's rationale for changing the eligibility criterion for the FDAA in 1990 but not earlier.

46. The **Deputy Secretary for the Civil Service** said that:

- in 1981, the issue was not examined thoroughly. Consideration was not given to the withdrawal of the FDAA at that time; and

- in 1989, the CSB introduced major changes to housing-related benefits and a completely different set of housing benefits was put in place, including the home finance allowance, the accommodations allowance and a modified HPS. At that time, the CSB did consider the question of whether or not it should make consequential changes to housing-related benefits, including the FDAA.

47. Referring to paragraph 6.13 of the Audit Report, the Committee acknowledged that the Secretary for the Civil Service agreed that the justifications for allowing HPS beneficiaries to draw the FDAA should be re-examined. The Committee enquired what the outcome was. The **Deputy Secretary for the Civil Service** stated that the CSB had consulted the staff and obtained their agreement to the cessation of the FDAA. The cessation had already been effected on new recruits appointed on or after 1 May 1999. The Committee noted that serving officers were still entitled to the FDAA. According to paragraph 6.10 of the Audit Report, as at 31 December 1998, there were 2,347 HPS beneficiaries drawing the FDAA.

Dialect allowance

48. According to paragraph 7.20 of the Audit Report, the average cost of obtaining dialect interpretation service by the payment of dialect allowance was $4,952 per hour. In contrast, the hourly rate for part-time interpreters was only $204. The Committee asked why there was such a great differential.

49. **Mr LEE Lap-sun, Commissioner for Official Languages**, explained that:

- the average cost was high because in 1998 only about 210 hours of dialect interpretation work had been performed, whereas dialect allowance of about $1.04 million had been paid to the officers. In other words, having claimed the dialect allowance, the claimants performed dialect interpretation very infrequently; and

- he agreed that there was a need to review the arrangement. As the demand for dialect interpretation was small, he would consider the termination of payment of the dialect allowance for the dialects in question, except Putonghua.

50. With reference to paragraph 7.18 of the Audit Report, the Committee noted that the Government announced in 1995 its aim to make the civil service biliterate and trilingual. As such, the Committee asked whether the Administration would consider excluding Putonghua as a dialect qualifying for an allowance.

51. The **Commissioner for Official Languages** stated that:

- at present, there were not a large number of Chinese Language Officers (CLOs) who were proficient in Putonghua. The policy of developing a biliterate and trilingual civil service had only been introduced for a short period of time. When the staff in the Putonghua interpretation pool were recruited, Putonghua was not an entry requirement. They started to undergo training in Putonghua after they were recruited and expected some financial recognition for providing such an additional service; and

- new recruits in the CLO grade were required to possess a certain level of proficiency in Putonghua. However, it was still questionable whether they could reach the level of proficiency required for interpretation duties. Hence, the Official Languages Agency (OLA) could cease the payment of Putonghua dialect allowance only when the civil service had really become biliterate and trilingual.

52. On the question of part-time interpreters, the Committee asked whether such interpreters could be used more frequently so as to reduce cost.

53. **Mr Wilfred TSUI Chi-keung, Judiciary Administrator**, stated that:

- most lower courts were already using part-time dialect-Cantonese interpreters; and

- it would not be feasible to use part-time interpreters for complicated litigation conducted in English because interpretation from one language to another was difficult. The qualifications of the part-time interpreters currently on the Judiciary's register would not be high enough to perform the job.

54. The **Commissioner for Official Languages** stated that:

- the OLA seldom used part-time interpreters, apart from part-time simultaneous interpreters who belonged to another grade; and

- as for Putonghua interpretation, the OLA deployed full-time staff to provide the service. There was a Putonghua Interpretation Section with seven interpreters to provide high-standard service. They had to accompany delegations to the Mainland and might deal with confidential matters. Hence, it was not appropriate to use outside part-time staff.

55. The Committee noted that the OLA kept detailed record of the number of hours which CLOs spent on interpretation work and hence should be well aware that the dialect allowance claimants had not performed the interpretation duty frequently. The Committee queried why the OLA had not taken the initiative to review the situation.

56. The **Commissioner for Official Languages** said that:

- the OLA realised that from 1989 to 1998, there had been a considerable demand for Putonghua. Starting from 1996, the demand for the other dialects had been reduced very substantially; and

- actually, before the issue of the Audit Report, the OLA had discussed the issue with the CSB. He had also raised the problem with his staff.

57. The **Director of Audit** commented that the question was whether the discussion had any outcome.

58. On the keeping of statistics, the **Judiciary Administrator** said that in the past, the Judiciary did not keep record of the number of hours spent on interpretation duties by court interpreters. He accepted that dialect allowance should only be given on a value-for-money basis. In future, statistics on the interpretation duties would be kept.

59. Referring to paragraph 7.8 of the Audit Report, the Committee asked whether the CSB had formally consulted the staff on the proposal of replacing the dialect allowance with a bonus scheme before deciding not to implement it. The **Deputy Secretary for the Civil Service** confirmed that the suggestion had been discussed by the Senior Civil Service Council. The staff side's reaction was not positive. Thus, the proposal was dropped.

60. The Committee further asked about the progress in rationalising the payment of dialect allowance. The **Deputy Secretary for the Civil Service** stated that the CSB had reached agreement-in-principle with the heads of grade over the payment arrangements. The staff side would be consulted.

Overtime allowance

61. The Committee noted from paragraph 8.11 and Table 14 of the Audit Report that the Post Office ranked consistently as the topmost department, in terms of the total payments of OTA and Disciplined Services Overtime Allowance (DSOA) to staff expressed as a percentage of total departmental salary payments. From 1994-95 to 1998-99, the percentage was consistently over 30%. In 1997-98, it even reached 41.5%. In this connection, the Committee asked:

- whether the high level of overtime payment indicated problems in staffing arrangement; and

- what actions had been taken to rectify the situation and what the results were.

62. **Mr LUK Ping-chuen, Postmaster General**, informed the Committee that:

- there was a historical background to the high level of overtime payment in the Post Office. Before August 1995, the Post Office was a government department and had to bid for resources from central allocation. When the bids for permanent posts were unsuccessful, apart from employing temporary staff, existing staff would have to work overtime; and

- the volume of mail was beyond the Post Office's control. Overtime work was an effective means to respond to increased workload expeditiously.

63. Regarding improvement measures, the **Postmaster General** stated that:

- the modus operandi of the Post Office had been reviewed in 1997. Starting from November 1997, overnight sorting of mail was performed in the headquarters so that the performance pledge of delivering local mail on the next day of mailing could be fulfilled. At the same time, machines were used to improve efficiency and reduce OTA. The trial was successful and the arrangement had been extended to the International Mail Centre and the Kowloon Central Post Office;

- some services had been contracted out, including using non-government vehicles to transport mail and the packaging work in the philatelic section;

- a work standards survey had commenced last year to review the delivery route details with a view to evening out the workload. The first phase had been implemented in October 1999 and another three reviews would be carried out. In addition, the Department's productivity index was being reviewed with a view to reflecting correctly the productivity of the Department as well as that of the district and branch offices;

- certain divisions of the Post Office had been merged to save manpower. For example, speed post and parcel delivery had been merged. As for manning scale of the counters, 16 branch offices had been reviewed and the manning ratio reduced. A review on the deployment of drivers had also been conducted; and

- with the completion of these reviews, it was hoped that productivity could be increased and overtime work reduced. So far the achievements had been satisfactory. Staff response was favourable. The productivity in the second quarter of 1999 had increased by 12% comparing with that of the corresponding period last year.

64. The Committee noted the CSB's comment in paragraph 8.12 of the Audit Report that it was not readily clear why so much of the overtime work could not be undertaken by other means, such as bidding for new staff, introducing shift duties, reshuffling duties, or employing non-civil service contract staff to cover short-term job requirements. In paragraph 8.13, it was also stated that the CSB was considering the way forward for administering overtime work. The Committee enquired what progress had been made.

65. The **Deputy Secretary for the Civil Service** informed the Committee that:

- over the last few years the CSB had tried to ensure that departments did curtail the use of overtime. To this end, a number of measures had been taken. In 1998, circulars were issued to remind HODs of the need to properly control the use of overtime and that overtime work should first be compensated by time-off-in-lieu;

- the CSB had been discussing with the departments which had the largest payments of OTA, namely the Post Office, the Housing Department and the Water Supplies Department to ascertain the reasons for the large volume of overtime work and to work out ways of improvement. Proposals included restructuring of work arrangements, introduction of shifts and outsourcing to the private sector. Recently, the CSB had offered assistance by deploying additional staff to the departments if they did not have sufficient resources; and

- notwithstanding the CSB's efforts in reducing overtime work, the overtime requirement for a particular department was dictated by operational need. For instance, if there was an emergency situation where staff had to be activated overnight at short notice to work beyond their normal working hours, the HOD must have the flexibility to make the decision. The CSB could not centrally make and impose a decision on the department.

66. The **Postmaster General** stated that:

- as a trading fund department, the Post Office was very cautious about the cost implications of permanent staff. If the cost was high, there would be pressure on the Department's fees and charges. Notwithstanding that, the Post Office did try to create permanent posts. However, if the Department was to absorb all overtime work by permanent staff, over 2,000 posts would be required. Hence, instead of pursuing this route, the Department engaged non-civil service contract staff and temporary workers to cover some of the overtime work;

- the work hours of temporary staff had steadily increased over the years. In 1994-95, they accounted for 5.66% of the total work hours. In 1998-99, they accounted for 9.44%. At present, there were more than 1,000 temporary and non-civil service contract staff in the Department, compared to about 6,000 permanent staff. However, there was problem with using non-civil service contract staff. As their turnover rate was high, the Department encountered difficulties in terms of training; and

- as regards shifts, the arrangement had all along been adopted in the Post Office. There had been two shifts and the overnight sorting work was the third shift. During this shift, only the supervisory staff were permanent staff whereas the operational staff were all non-civil service contract staff.

67. Referring to the Postmaster General's remark that a number of measures had been taken to reduce overtime work in the Post Office, the Committee queried why, according to Table 14 of the Audit Report, the percentage of OTA to total departmental salary payments in 1998-99 was higher than that in 1994-95.

68. The **Postmaster General** stated that:

- the exceptional increase in overtime hours in 1996-97 and 1997-98 was due to the philatelic boom. Extra staff had to be deployed to maintain order in the sale of stamps. The figure had already dropped in 1998-99 and would further decrease in 1999-00; and

- in 1994-95 before the Post Office had changed to a trading fund, it was not able to create the necessary number of permanent posts.

69. At the request of the Committee, the **Deputy Secretary for the Civil Service** undertook to provide the Committee with information on whether the Post Office had bid for new staff since 1994-95 and the outcome of their biddings. In his letter of 24 December 1999 in ***Appendix 17***, the **Secretary for the Civil Service** provided the Committee with the outcome of the biddings for new staff by the Post Office since 1994-95, as follows:

	1994-95	1995-96	1996-97	1997-98	1998-99
Posts bid under the	394	-	-	-	-

government resource allocation exercise					
Posts proposed in the Post Office Business and Corporate Plans	-	210	210	199	233
Posts approved	168	210	210	199	233

70. On the question of bidding for additional staff, **Mrs Carrie LAM CHENG Yuet-ngor, Deputy Secretary for the Treasury**, stated that:

- every year most departments would apply for additional staff under the resource allocation exercise. Prior to becoming a trading fund department, the Post Office did request additional staff. At the same time, starting from 1990, the Post Office claimed a substantial amount of resources for OTA every year. In other words, it had been the practice of the Post Office to use overtime work to cope with increased workload; and

- the FB hoped that, with limited resources, departments would try to use alternative means to make the best use of resources. For instance, the Police had also bid for additional resources in the annual resource allocation exercise. Failing that, the Commissioner for Police, within the existing establishment, had deployed resources more flexibly and achieved a very substantial reduction in the DSOA in recent years.

71. The **Deputy Secretary for the Civil Service** shared the view of the Deputy Secretary for the Treasury. He stated that even if departments were unsuccessful in securing additional resources, there were always ways to review the operational procedures and achieve reduction in OTA.

72. The Committee noted from paragraph 8.5 of the Audit Report that from 1994 to 1996, the ICAC received about 600 complaints concerning malpractices in staff administration in the civil service, including falsifying attendance records, undertaking outside work during official duty hours and fraudulent claims of OTA and DSOA. In this connection, the Committee asked:

- how the Administration addressed the concerns raised by the ICAC; and

- the number of civil servants who were disciplined as a result of the ICAC investigations.

73. The **Deputy Secretary for the Civil Service** responded that:

- the CSB had been working closely with the ICAC to ensure that the excessive use of overtime work would not become a habitual practice of the departments; and

- the CSB issued a circular in 1998 to share among all departments the experience that the ICAC had gained in its investigations into the complaints.

74. In his letter of 24 December 1999 in ***Appendix 17***, the **Secretary for the Civil Service** provided the outcome of the ICAC investigations, as follows:

Nature of offence	Total number of officers given formal punishment
Unauthorised absence	597
Fraudulent claim of OTA/DSOA	133
Falsification of attendance records	451
Total	1,181

75. According to paragraph 8.8 of the Audit Report, in 1997, in response to a request of Legislative Council Panel on Public Service, the CSB commenced a survey on OTA. The Committee asked why the Administration only conducted reviews on overtime payments after queries had been raised by the ICAC and the Legislative Council.

76. **Miss Denise YUE Chung-yee, Secretary for the Treasury**, stated that:

- from the FB's point of view, the initiative for controlling overtime expenditure had to be from the controlling officers. The FB's responsibility was to consider the allocation of resources in a comprehensive manner to decide the amount of OTA that should be allocated to a particular department. The FB was too removed from departmental operations to judge what should be the appropriate level of OTA for individual departments;

- under the current practice, when the FB realised that the OTA expenditure of a particular department was excessive, it would refer the matter to the CSB and the relevant controlling officer. It was believed that the CSB and the relevant controlling officer would be able to introduce appropriate changes; and

- starting from 1999-2000, the FB had stipulated that a controlling officer could not apply for additional funding in the same financial year if he failed to control the OTA.

77. The **Deputy Secretary for the Civil Service** stated that the FB did draw to the CSB's attention problems that it detected and the CSB would follow up with the relevant departments. When the CSB approached the controlling officers, they always responded positively. The CSB had been working with departments, both centrally and individually, to provide the appropriate resources for them to meet the public demand. New solutions had been introduced including the use of non-civil service contract staff, which did not exist in the early 1990s. The CSB's prime role was to determine the policy on overtime. It could not administer overtime work in over 80 departments.

78. The **Deputy Secretary for the Treasury** stated that since the launching of the Enhanced Productivity Programme (EPP) in October 1998, there had been a substantial reduction in all kinds of allowances, including the OTA.

79. In the light of the remark of the Deputy Secretary for the Treasury, the Committee enquired whether the savings achieved by reducing expenditure on allowances were counted towards gains under the EPP.

80. At the Committee's request, the **Secretary for the Treasury** confirmed in her letter of 22 December 1999, in ***Appendix 19***, that savings achieved by bureaux and department through reducing expenditure on allowances (as opposed to fringe benefits) were counted towards gains under the EPP. The FB had in fact been advised by many departments, in preparing the 2000-01 Draft Estimates, that part of the mandatory 1% savings required under the EPP in 2000-01 would be delivered through reducing expenditure on allowances, notably overtime allowance.

81. In the same letter, the **Secretary for the Treasury** provided information on the reduction in expenditure on the OTA and DSOA since the introduction of the EPP, as follows:

	1994-95 ($m)	1995-96 ($m)	1996-97 ($m)	1997-98 ($m)	1998-99 ($m)
OTA	947.9	1,115.3	1,223.7	1,431.4	1,384.2
DSOA	481.8	522.8	587.3	537.0	353.6
Total	1,429.7	1,638.1	1,811.0	1,968.4	1,737.8

Acting allowance

82. The Committee noted from paragraph 9.12 of the Audit Report that the CSB was conducting a review on the acting appointment system and the staff side would be consulted by end-1999. The Committee asked what the progress and outcome of the review were.

83. The **Deputy Secretary for the Civil Service** stated that the CSB had embarked on a round of staff consultation with a view to modifying the acting allowance arrangements. Basically, the CSB proposed that the qualifying period should be changed to 30 days. The CSB expected to complete the consultation by the end of 1999. The staff response had not been positive.

84. The Committee noted from paragraph 9.13 of the Audit Report that back in 1989, Audit had informed the CSB that it was not advisable to revise the qualifying period for the payment of acting allowance from 30 to 14 calendar days. As the CSB now proposed to extend the qualifying period back to 30 days, the Committee asked whether the CSB had reversed its stance. The Committee further asked whether the Administration had made reference to the private sector.

85. The **Deputy Secretary for the Civil Service** stated that:

- in 1989, the qualifying period was shortened to tie in with the trend of officers taking shorter leave which gave rise to the need for shorter acting appointments;

- presently, the proposal of extending the qualifying period was put up because it had appeared that officers did try to take longer leaves; and

- as far as he understood, making acting appointments was not a practice in the private sector. It was only a civil service arrangement.

86. Responding to the Committee's question about the potential reduction in the acting allowance following the revision of the qualifying period to 30 days, the **Secretary for the Civil Service** stated that:

- basically, there were two types of acting appointments, namely, acting appointments to test an officer's suitability for promotion and acting appointments for an officer to undertake temporarily the duties of another post which was vacant; and

- acting appointments to cover short-term vacancies only accounted for a small portion of the total expenditure on acting allowance.

87. In his letters of 24 December 1999 and 5 January 2000 in ***Appendices 17 and 20*** respectively, the **Secretary for the Civil Service** further provided the Committee with a breakdown of the expenditure on acting allowance in 1997-98 and 1998-99 by duration. The estimated expenditure on acting allowance by pay band and acting period in 1998-99 is as follows:

Pay band	Acting period (in calendar days)						Total	
	<14 days		14 - 29 days		>=30 days			
	(No.)	($m)	(No.)	($m)	(No.)	($m)	(No.)	($m)
MPS 1-33	12,478	18.0	38,582	79.1	26,789	297.2	77,849	394.3
MPS 34-49	3,729	28.6	9,204	60.9	7,348	179.1	20,281	268.6
Directorate	574	4.4	1,135	9.1	932	31.6	2,641	45.1
Total	16,781	51.0	48,921	149.1	35,069	507.9	100,771	708.0

88. In his letter of 24 December 1999, the **Secretary for the Civil Service** stated that:

- acting appointments intended to test officers' suitability for promotion were normally made for a relatively longer duration, in many cases six months or even longer where necessary. Short-term acting appointments lasting for less than 30 days were in most cases made for administrative convenience to cover temporary vacancies;

- the purpose of the proposed changes to the acting appointment system was to ensure that acting appointments were made and acting allowance granted only where necessary and justified on management or operational needs. It was therefore reasonable to expect that the number of acting appointments, and in turn the expenditure on acting allowance, might be reduced; and

- in 1998-99, about $200 million was paid for acting appointments lasting for a period of less than 30 days. With the implementation of the proposed changes, some of that expenditure might be reduced. However, given that the circumstances for making acting appointments might vary, it was extremely difficult to estimate the potential reduction in acting allowance with any degree of certainty.

89. In her letter of 28 December 1999 in ***Appendix 21***, the **Acting Secretary for the Civil Service** supplemented that:

- in terms of financial implications, acting appointments longer than 30 days accounted for more than $500 million or 72% of the total expenditure on acting allowance in 1998-99. It was reasonable to draw a conclusion that the majority of these longer-term acting appointments were made to test suitability for promotions; and

- having completed the consultation with departmental management and the staff side on the proposed changes to the acting appointment system, the CSB was ready to implement the proposals in January 2000.

90. In view of the fact that the majority of the acting allowance was paid for acting appointments intended to test officers' suitability for promotion, and that officers appointed to act in a post in a higher rank did not receive the pay or fringe benefits of the acting post, the Committee considered that the Government might have actually saved expenditure on pay and fringe benefits as a result of such acting appointments. The Committee invited the Director of Audit's comment in this regard.

91. In his letter of 7 January 2000 in ***Appendix 22***, the **Director of Audit** commented that:

- Audit noted that, in some cases, acting appointments for more than six months were made for administrative convenience to cover temporary vacancies arising from officers' overseas training and prolonged sick leave. Audit estimated that in 1998-99, acting appointments with acting periods of more than 180 days accounted for 6% of the number of appointments made and 36% of the amount of acting allowance paid; and

- an officer might be appointed to act in a vacancy in a higher rank in order to test his suitability for substantive promotion to that rank. The officer's entitlement to fringe benefits (mainly housing benefits and passage) at certain salary points might be different. However, there was no evidence to suggest that acting appointments were made for the purpose of saving expenditure on pay and fringe benefits.

92. Upon the Committee's request, the **Secretary for the Civil Service** provided the Committee with a copy of the paper on "Review of Acting Appointment System" submitted to the Legislative Council Panel on Public Service. A copy of the paper is in ***Appendix 23***. According to the paper, the major proposed changes to the acting appointment system were:

- clear guidelines would be issued to departments to ensure that acting appointments were made only when necessary and justified to meet management or operational needs;

- the minimum qualifying period for payment of acting allowance would be 30 days for all posts including those at bureau secretary and HOD level;

- acting allowance would not be granted for doubling-down acting appointment; and

- under very exceptional circumstances, heads of department/grade might, after consultation with the CSB, grant acting allowance for a period shorter than 30 days if they were personally satisfied that such variation was essential to meet management requirements.

93. On 22 January 2000, Hon CHAN Yuen-han, Hon CHAN Kwok-keung and Hon CHAN Wing-chan of the Federation of Trade Unions submitted a letter, in ***Appendix 24***, to the Committee setting out their views on the HOTA, Mileage allowance, FDAA, dialect allowance, OTA and acting allowance. The Committee noted the views of the three Legislative Council Members.

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

- express serious dismay that:

  (i) the Administration has failed to abolish outdated allowances although it has long been aware that the allowances have become outmoded and no longer justified in present-day circumstances;

  (ii) since 1980, the Committee on Allowances has reduced its own function. Thereafter, the Administration has taken limited initiative to review individual allowances and the system of administration of allowances in the civil service; and

  (iii) in the last 20 years, there have only been three reviews on job-related allowances;

- express dismay at the Administration's strict adherence to the practice of "non-deprivation of existing benefits" where serving officers are allowed the options of retaining the existing benefits and of receiving new benefits and the self-imposed convention of not unilaterally altering the conditions of service without the staff side's agreement, which are the main reasons for continuing to provide the more generous fringe benefits to civil servants, notwithstanding that:

  (i) these practices have not been endorsed by the Executive Council or the Committee on Allowances;

  (ii) there are legal grounds on the basis of which the Government can modify the terms of appointment and conditions of service; and

  (iii) there is a well-established procedure for resolving disputes with the staff associations should these occur;

- express serious concern that:

  (i) even though the Civil Service Bureau (CSB) wanted to alter the home-to-office travelling allowance (HOTA) and withdraw the Independent Commission Against Corruption (ICAC) post allowance in 1992 as they were considered outmoded, it did not vigorously follow through the proper process of consultation; instead, it had only asked the departments concerned to gauge the staff reaction to the proposed change to the HOTA and had not consulted the ICAC staff; and

(ii) the CSB subsequently gave up its proposals to withdraw or alter the allowances in view of the likely difficulties it perceived;

- are encouraged by the staff associations' reasonable and positive response when the Administration formally put up the justifications and proposals for altering the allowances through the consultation mechanism, as in the cases of the HOTA where the staff side has accepted the alteration proposal and of the furniture and domestic appliances allowance (FDAA) where the staff side has agreed to the cessation of payment to new recruits appointed on or after 1 May 1999;

- urge the Secretary for the Civil Service to:

(i) consider implementing a programme to review regularly the justifications for individual allowances at the policy level;

(ii) issue guidelines, including the criteria for approval, to ensure that the mileage allowance is only provided for duty journeys where the use of public transport is not possible;

(iii) in consultation with the Commissioner for Official Languages, the Commissioner of Police and the Judiciary Administrator:

(a) review the current practice of paying the dialect allowance regardless of the frequency of using the dialects by the claimants of the allowance; and

(b) critically examine the justifications for including Putonghua as a dialect qualifying for an allowance;

(iv) take positive action to enforce the requirement that excessive overtime work should be minimised and remind Bureau Secretaries and Heads of Department of the importance of compliance with this requirement;

(v) urgently review, in conjunction with the Heads of Department concerned, the significant recurrent payments of overtime allowance (OTA) in departments, with a view to reducing these payments. In particular, the Secretary for the Civil Service should:

(a) develop strategies to minimise the overtime work of government departments. In doing so, the CSB may wish to draw on the Hong Kong Police Force's experience in reducing the Disciplined Services Overtime Allowance (DSOA);

(b) require the departments concerned to conduct thorough reviews of the staff requirement so as to ascertain ways of minimising the overtime work; and

(c) consider seeking the assistance of the Secretary for the Treasury, in the vetting of the annual estimates for the OTA and the DSOA, with a view to reducing overtime expenditure; and

(vi) regularly monitor the payment of the OTA and the DSOA by departments and take positive action to reduce regular and excessive overtime payments;

- acknowledge that the CSB had implemented the proposals of the review on the acting appointment system, including prolonging the qualifying period for acting allowance to 30 days;

- express concern that the new qualifying period does not apply to officers acting in posts above the level of Bureau Secretary and Head of Department, and urge the Administration to consider applying the new rule to all officers acting in posts at all ranks;

- urge the Secretary for the Civil Service, in conjunction with the Secretary for the Treasury, to take urgent action to ensure that acting appointments are made only when there are genuine operational needs. In particular:

  (i) the Secretary for the Civil Service should promulgate guidelines requiring Policy Secretaries and Heads of Department to exercise due care in making acting appointments. The justifications for all acting appointments should be vigorously vetted; and

  (ii) the Secretary for the Treasury should, in consultation with the Secretary for the Civil Service, consider tightening up the budgetary control over the acting allowance;

- urge the Administration to conduct formal staff consultation with a high degree of transparency in accordance with the established procedure, with a view to working out a timetable for abolishing the outmoded allowances, paying due regard to the Director of Audit's concerns, value-for-money considerations, accountability for public expenditure, prevailing human resource practices in the private sector, and staff reaction;

- urge the Administration to continue to discuss the review on allowances with the Legislative Council; and

- wish to be kept informed of the consultation process, staff reaction, the Administration's stance, the results of the review and, if there are any allowances which are considered not outmoded, the justifications for their continuation.

The Committee noted Audit's review on:

- the purchasers' failure to complete the land sale contract in the case of the sale of the Kowloon Bay site for industrial/office use and the Ap Lei Chau site for a Private Sector Participation Scheme (PSPS) housing development; and

- the sale of the Ma On Shan site by tender for hotel use,

for the purpose of evaluating how effective the Government had been in administering the sale of land by tender and ascertaining whether there was room for improvement.

Purchasers' failure to complete land sale contract

2. The Committee noted that the tenders for the sale of the Kowloon Bay site and the Ap Lei Chau site were awarded in October and November 1997 respectively. However, the purchasers defaulted and failed to complete the land sale contract after the award of the tenders. Audit estimated that the two default cases had resulted in a loss of public revenue of about $400 million. According to a clause in the Tender Notice, the Government could require a purchaser's parent company or associated company to guarantee the completion of the development of the site and to indemnify the Government against all losses arising from the purchaser's failure to complete the sale contract. However, the Lands Department did not invoke the clause to require such a guarantee. As the defaulting purchasers of the two sites were companies with no substantial assets, the Government could not recover its losses from their parent or associated companies. The Committee also noted that contrary to the requirement of the Tender Notice, the purchaser of the Kowloon Bay site had not submitted statements giving evidence of its financial and technical ability in its tender. As a result, the Lands Department could not assess the tenderer's financial position and technical capability prior to the award of the tender.

3. In the light of the above, the Committee asked whether the Administration had made a mistake. **Mr R D Pope**, **Director of Lands**, said that:

- according to the Tender Notices for the sale of the two sites in question, the Government had the right to obtain a parent or associated company guarantee. The Administration had made an error in not asking the purchaser of the Kowloon Bay site to submit a parent or associated company guarantee within seven days from the award of the tender. However, even if it had asked, the end result would not be very different because, shortly after the award of the tender, the purchaser had already requested a deferral in the execution of the Conditions of Sale and the payment of the balance of the tender price;

- in the Ap Lei Chau case, the purchaser had been asked to submit a parent or associated company guarantee but failed to do so. The circumstances of the two cases were similar; and

- when the two sites were put up for sale by tender, the Asian financial crisis had not really started. It was quite clear in November 1997, i.e. after the award of the tenders, that the purchasers were having second thoughts about completing the land sale contracts. Both of them asked for a deferral of the date of payment and other concessions. As their requests were not acceded to, they decided not to proceed with the purchase.

4. **Mr Gordon SIU Kwing-chue**, **Secretary for Planning, Environment and Lands**, commented that as the requirement of a guarantee was stipulated in the Tender Notice, the Administration should have enforced them accordingly. Action should have been taken even though the end results might have been the same. He agreed with the Director of Lands that an error had been made in the case of the sale of the Kowloon Bay site.

5. The Committee noted that the purchasers of the Kowloon Bay site and the Ap Lei Chau site were both newly-formed shelf companies with no landed property in Hong Kong, and asked whether the Administration would consider conducting a search on the financial conditions of potential tenderers so as to protect the Government's interest. The **Director of Lands** said that:

- for the sale of PSPS sites and other sites involving Government facilities where the Government had a clear policy commitment, the Administration would ensure that tenderers would be required to submit their tenders with statements of their financial and technical ability and a parent or associated company guarantee upon the award of a tender;

- it was the Administration's view that the sale of non-PSPS sites by tender should be treated in the same way as a site sold by public auction where the bidders were not required to submit evidence of their financial and technical ability; and

- the Administration was concerned that to require the submission of a parent or associated company guarantee would discourage some smaller property developers from tendering, thereby favouring the larger developers.

6. From paragraph 2.12 of the Audit Report, the Committee noted that in January 1998, the clause requiring the submission of statements of financial and technical ability was deleted from the Tender Notice. However, for the sale of PSPS sites, the clause still remained as one of the requirements specified in the PSPS Tender Notice. Since the premium from the sale of land is an important source of revenue for the Government, and the property market does experience cyclical fluctuations which call for additional safeguards to be put in place to protect the Government's interest, the Committee asked:

- whether the Director of Lands had the authority to delete the clause from the Tender Notice;

- what the original rationale was for stipulating the requirement in the Tender Notice;

- why the Administration decided in December 1997 to discontinue the requirement; and

- whether it was reasonable to impose the requirement only on PSPS tenders.

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

- as the Director of Lands, he had the authority to delete the requirement from the Tender Notice;

- he believed that the rationale for stipulating the requirement in the Tender Notice previously was to safeguard against possible losses. However, this safeguard was more theoretical than real. This was shown to be the case in respect of the Ap Lei Chau tender. Even though the purchaser had been asked to provide the parent or associated company guarantee, it failed to do so and, in the event, the sale contract was defaulted;

- the decision was made subsequent to a review of the policy after the Kowloon Bay and the Ap Lei Chau tenders. The requirement was considered not essential for non-PSPS land sales and it had been rarely implemented. It was also considered that the policy should be consistent with the auction practice to help maintain a level-playing field in the disposal of land; and

- for a straight-forward tender, the Government would ask for a fairly substantial deposit of about ten per cent of the purchase price. Under a steady market condition, this should be sufficient to cover any deficit if the successful tenderer defaulted. The circumstances of the tenders of the Kowloon Bay site and the Ap Lei Chau site were unusual in that the value of property dropped very dramatically over a period of a few weeks or months.

8. In his letter of 16 December 1999 in ***Appendix 25***, the **Secretary for Planning, Environment and Lands** informed the Committee of the history and the rationale for stipulating the requirements in the Tender Notice, and the reasons for deleting the relevant clause from the Tender Notice in January 1998. He said that:

- the clause was included in the Tender Notice to ensure that the tenderers would have the financial and technical ability to complete PSPS projects or those involving Government facilities; and

- the clause was deleted from the non-PSPS Tender Notice for the following reasons:

  (i) the Conditions of Sale of land by auction did not have such a clause; and

  (ii) the Lands Department's main concern in a tender exercise was the acceptability of the tendered premium. The technical capability of the bidder could be ensured through other means such as the building covenant clause in the tender document.

9. At the Committee's suggestion, the **Director of Lands** undertook to consult the relevant trades and professions on the appropriateness of imposing the requirements for evidence of financial and technical ability and parent or associated company guarantees in all land sale tenders, i.e. both PSPS and non-PSPS tenders. He would also consider the proposal of requiring prospective tenderers to submit parent or associated company guarantees at the tender stage.

10. Referring to the Director of Lands' remarks that the requirement for the submission of statements of financial and technical ability had rarely been implemented, the Committee asked whether the relevant clause in the Tender Notice had ever been invoked and who should be held responsible for the failure to implement it. The **Director of Lands** said that it was unfortunate that the requirement in the Tender Notice had been overlooked. He would not wish to mention individual names even if it was possible to identify them.

11. In reply to the same questions put by the Committee, the **Secretary for Planning, Environment and Lands** pointed out in his letter of 16 December 1999 in ***Appendix 25*** that:

- the Lands Department had confirmed that the tender clause had never been invoked to reject a tender, as it was primarily concerned with the acceptability of the tendered premium;

- in respect of the Kowloon Bay site, the tender was examined by officers of various levels at the Lands Department Headquarters in accordance with departmental procedures. These officers included the Senior Estate Surveyor (Valuation), Chief Estate Surveyor (Valuation), Assistant Director (Valuation), Deputy Director (Specialist) and the Acting Director of Lands. The defaulting tenderer had submitted the tender with its parent company's annual report. In accordance with the Lands Department's previous practice, this was considered sufficient; and

- for the Ap Lei Chau site, the tender was considered by the PSPS Tender Board. The Housing Department, as the PSPS Tender Board secretariat, had made an assessment of the financial capability of the three highest tenderers and considered them to be satisfactory on the basis of their sources of finance from banks. The Architectural Services Department, also a member of the PSPS Tender Board, had confirmed that the technical ability of the three highest tenderers was generally acceptable.

12. With reference to the Director of Lands' comments in paragraph 2.29(b) of the Audit Report that to award tenders which did not comply with the requirements of the Tender Notice might inevitably run the risk of legal challenges from other unsuccessful tenderers, the Committee asked whether the Administration had considered this aspect when it decided not to pursue the requirement for the purchasers to submit the parent or associated company guarantees and whether there had been cases where unsuccessful tenderers had challenged the award of such tenders on the ground of unfairness. The **Director of Lands** said that:

- the Tender Notice for the sale of the Kowloon Bay and the Ap Lei Chau sites merely stipulated that the Government had the right to obtain a guarantee from the purchasers' parent or associated company. It was not a requirement that had to be implemented. In this respect, the Administration had not done anything wrong. In normal cases, if the sale and the development had been taken forward, there would not be any possible challenge from unsuccessful tenderers; and

- in practical terms, it could be said that a mistake might have been made in the case of the sale of the Kowloon Bay and the Ap Lei Chau sites. If the Government had asked for the guarantee, it might have been able to recover the balance of the premium from the purchasers.

13. According to paragraphs 2.19 and 2.20 of the Audit Report, the Independent Commission Against Corruption (ICAC) had enquired about the cancellation of the sale of the Ap Lei Chau site and subsequently made some suggestions as to how the Government's interest could be safeguarded in future land sale tenders. The Committee asked whether the ICAC's intervention in this case was rather unusual, and whether there were other land sale cases where the ICAC had taken an interest and conducted an investigation. The **Director of Lands** said that the enquiry was made by the Corruption Prevention Department of the ICAC subsequent to the media coverage on the case. It was more concerned with how the systems worked and how fairness could be ensured in land sale tenders. It had taken no further action nor made further comments after the Lands Department had given its response. The **Secretary for Planning, Environment and Lands** informed the Committee in his letter of 16 December 1999 in ***Appendix 25*** that the ICAC had not approached the Lands Department on other cases relating to the sale of land by tender.

14. Regarding the current position of the Ap Lei Chau site, the **Director of Lands** informed the Committee that the site had been put out for tender for mixed development. The tender would close on 24 December 1999. Before then, the Lands Department would discuss with the Housing Bureau as to whether it would be appropriate to set a reserve price for the sale of sites for mixed development. As the tender had not been awarded, the possible loss of revenue was not yet known. He would inform the Committee when the tender result was available in a few months' time.

15. In his letter of 21 December 1999 in ***Appendix 26***, the **Secretary for Planning, Environment and Lands** provided the Committee with the following information:

- the Lands Department had previously requested company guarantees from the land sale tenders for PSPS and major infrastructure projects including the sale of the Hong Kong China Ferry Terminal site in 1985, the Peak Tower redevelopment site in 1989 and the River Trade Terminal site at Tuen Mun in 1996; and

- prior to April 1999, reserve prices had only been set for the sale of the Leighton Hill site in April 1998 and the Aldrich Bay site in May 1998. The purpose of setting a reserve price for these two sites was to expedite the announcement of the tender results so as to ensure the early completion of the tender process and to minimise any risk of default.

Sale by tender of the Ma On Shan site for hotel use

16. The Committee noted in paragraph 3.8 of the Audit Report that in an attempt to address an anticipated shortage of hotel rooms over the coming ten years, the meeting of the then Chief Secretary's Committee (CSC) on 17 July 1995 agreed to the proposal to increase the plot ratios for hotels. Under the consideration that the Government should move cautiously and should not interfere with the market unnecessarily, the Chief Secretary agreed reluctantly to the recommendation of testing the market with one or two sites earmarked specifically for hotel development. The Ma On Shan site was eventually identified as one of the two sites in the trial scheme and was awarded to the highest tenderer at the tender price of $120 million in March 1998. Audit estimated that the site could have been sold at a price of $764 million if it had been allowed to be developed for residential purposes. Therefore, the estimated revenue forgone arising from the restriction of land use to hotel would amount to some $644 million.

17. With reference to paragraphs 3.21 and 3.25 of the Audit Report, the Committee noted that in the light of the dramatic changes in the outlook for the tourist industry and market sentiment, the Director of Lands had proposed in February 1998 to withdraw the site from tendering with a view to rezoning it for residential use. However, his proposal was not accepted. In March 1998, when submitting the tender report to the Central Tender Board (CTB), he advised the CTB that the tender sum of $120 million was not unreasonable. The Committee asked why the Director of Lands had changed his position within such a short span of time, and as the department with the responsibility of giving professional advice on land sale matters, whether he should have insisted on his original proposal or referred the matter back to the CSC for reconsideration as to whether it was appropriate to award the tender at that time.

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

- having regard to hotel transactions in the preceding one or two years, the Lands Department estimated that, for the purpose of determining the tender deposit, the sale price of the site would be $1,056 million. As the Department expected to receive more than $500 million from the tender, it set the tender deposit at $50 million. At that time, the staff in the Department were not aware of the effect of the Asian financial crisis on the value of property, in particular, those earmarked for hotel development;

- at the closing of the tender, it was apparent that the market had changed very dramatically. In view of the dramatic decline in the number of tourists, he did make a recommendation to the Secretary for Planning, Environment and Lands that the site should not be awarded. However, the policy decision was to proceed with the tender procedures because of the Government's view that it did not operate a high land price policy. This position was obviously not for him to question. It was also not up to him to decide whether the Government should not have awarded the tender because the original estimate was high; and

- it was the view of the Administration that as the tender of the site had been widely publicised and the detailed terms fully disclosed, the two tenders received, which were of similar prices, should be the best indication of market value. On that basis, he was satisfied that the higher tender price was the market value at that time. This had been proved correct historically because the value of property for hotel development had not increased since then and was still depressed.

19. From paragraph 3.26 of the Audit Report, the Committee noted that the use of the Ma On Shan site for hotel purpose was discussed at the CTB meeting in March 1998 and that the Chairman of the CTB had said that the question of whether the site should continue to be sold for hotel purposes was a matter for the Planning, Environment and Lands Bureau (PELB) and the Economic Services Bureau (ESB) to decide. The Committee asked what the positions of the two bureaux were at that time.

20. The **Secretary for Planning, Environment and Lands** said that the position of the PELB had been clearly set out in paragraphs 3.22 and 3.24 of the Audit Report. The decision of zoning the Ma On Shan site for hotel development in support of the hotel and tourist industries was endorsed at various levels of the Administration. The PELB had basically adhered to this decision. The PELB was not a party to the discussion at the CTB meeting.

21. On the same issue, **Mr Stephen IP Shu-kwan**, **Secretary for Economic Services**, said that the ESB was also not a party to the discussion at the CTB meeting in March 1998. The position of the ESB had always been very clear. In view of the fact that the tourist industry had grown rapidly in the past 20 years, that 6% of the Gross Domestic Product was generated from this industry and that 300,000 jobs were at stake, the Government should render support to foster the industry's long-term development. The question of hotel-specific zoning should therefore not be affected by short-term market fluctuations. He would have given the same advice even if the ESB had been consulted at the time of the sale of the Ma On Shan site.

22. The Committee noted that in paragraph 3.23 of the Audit Report, the Director of Planning put forth the view that the Ma On Shan site should be retained for hotel use because the site was suitable for hotel development and any changes in the decision would put the credibility of the Government at risk and draw criticisms from the hotel industry. The Committee asked the Director of Planning:

- why he considered the site suitable for hotel development and whether it was possible to zone the site for mixed development; and

- whether it was appropriate for him, as a professional, to put forth the considerations which were politics-related.

23. **Mr Bosco FUNG Chee-keung**, **Director of Planning**, said that:

- it was not within the jurisdiction of the Planning Department to decide whether a tender should be awarded or not. Basically, its responsibility was to consider whether a particular site was suitable for a certain type of development and whether the planning guidelines had been followed. It was entirely proper for his predecessor to submit his views to the Secretary for Planning, Environment and Lands for his consideration;

- as regards the tender award of the Ma On Shan site, his predecessor was satisfied that the site was suitable for hotel development and that all the necessary planning procedures, including gazettal of the proposed use, public consultation and the Executive Council's (ExCo) approval, had been followed. In view of the fact that the zoning of the site was approved by ExCo in October 1997 after taking into account an objection, the Government would be subject to criticism if it changed its decision within a short period of time; and

- the site had not been considered for rezoning to residential purpose because other options, such as deferring the tender procedure, were being considered at the time. Moreover, the Town Planning Board (TPB) had previously decided not to uphold an objection to the hotel zoning. Rezoning the site to residential use would also render the TPB vulnerable to criticisms.

24. The Committee noted that one of the reasons given by the Secretary for Planning, Environment and Lands in paragraph 3.24 of the Audit Report for deciding not to withdraw the Ma On Shan site from tendering was that it might not be tenable for the Government to argue that it had to withdraw the site because the tender prices were too low, when all the time it had insisted that it did not operate a high land price policy and that prices of land were determined through market forces. In view of the fact that the Administration had previously withdrawn some sites from auctions because the prices offered were less than desirable, the Committee asked why the above argument, which appeared to be contradictory, had been put forth.

25. The **Secretary for Planning, Environment and Lands** said that:

- the estimated sale price of $1,056 million was determined on the basis of the sale of one site at the end of 1996 which was the peak of the property boom. It was therefore debatable whether this figure should be used as the basis for comparison with the actual tender price. Following the drastic economic changes that Hong Kong experienced at that time, the Administration could not possibly compare the tender prices received with any recent transaction prices; and

- the consideration at the time was that the tender exercise had been conducted in an open and fair manner and the tender prices should have reflected the market value at the time. There was virtually no justification for the Administration to withdraw the site or reject the tenders. It was under these considerations that the Administration had outlined its position as mentioned in paragraph 3.24 of the Audit Report.

26. In reply to the Committee's questions on whether the Lands Department had conducted any market research before determining the estimated sale price, and in hindsight, whether a reserve price should have been set for the site to protect the Government's interest, the **Director of Lands** said that:

- no major research had been conducted. The figure of $1,056 million was a rough estimate done by some fairly junior staff of the Lands Department for the purpose of determining the tender deposit. Though it was widely reported at the time that the number of tourists had dropped, there were no land transactions to identify the effect of the decline on the value of hotel property. The staff had also failed to take into account all the factors that were becoming apparent at that time; and

- it was not the policy then to set reserve prices for the sale of land by tender. The Administration's view was that if the sale of a certain site had been given sufficient publicity and if tenders were forthcoming, there was no reason to set a reserve price. However, following the Ma On Shan case, the Lands Department had introduced the policy of setting reserve prices for tenders.

27. The **Secretary for Planning and Lands** (i.e. the Secretary for Planning, Environment and Lands before 1 January 2000) advised the Committee in his letter of 13 January 2000 in ***Appendix 27*** that:

- the estimated sale price for the Ma On Shan site was set by officers at the Estate Surveyor and Senior Estate Surveyor level;

- the estimated price of $1,056 million was worked out in November 1996 and was based on analyses from the market transactions of completed hotels in Kowloon (one transaction at $500 million) and Sha Tin (one transaction at $3,070 million) in 1995;

- the Director of Lands confirmed that only the tender deposit of $50 million was made known to the public and to potential tenderers. As the initial estimated sale price of $1,056 million had not been revealed, this would not have affected the tendering of the site; and

- as explained by the Director of Lands at the public hearing, the tendering of the site in February 1998 might have been affected by the Asian financial crisis. He shared the Director of Lands' view that, given the circumstances, the prices offered by the two tenders were the fair indication of market value for the site at that time.

28. With reference to paragraphs 3.23, 3.28 and 3.30 of the Audit Report, the Committee noted that the Director of Planning had supported the view of the Secretary for Planning, Environment and Lands that the Ma On Shan site should be retained for hotel use. The tender of the site was awarded in March 1998. However, following an enquiry of the Office of the Chief Executive about the shortage of hotel rooms in Hong Kong, the Planning Department put forth the view in April 1998, i.e. one month after the award of the tender, that the sale of the site was rather untimely. The Committee asked:

- why the Planning Department's position on the matter had changed so abruptly within a month's time; and

- as a professional department, whether the Planning Department should have pointed out earlier that the sale of the site was untimely and should not have allowed the site to be sold at such a low price.

29. The **Director of Planning** said that:

- the role of the Planning Department was to give professional advice as to whether the Ma On Shan site was suitable for hotel development and whether the planning procedures had been followed. It was a policy decision as to whether the site should be sold and when it should be sold. As he was not the Director of Planning at the time, he believed that the Administration had considered all relevant factors and struck a balance between the short-term economic conditions and the long-term demand for hotel rooms. The Planning Department should support the decision once this was made. The description in paragraph 3.30 of the Audit Report should therefore be looked upon as a view taken by the Department in hindsight; and

- it was not the case that the Planning Department had changed its position on the matter. The Department had all along supported the view that the Government should foster the development of the tourist industry by designating specific sites for hotel development. This was because the hotel industry would not be in a position to compete for new sites, as most developers would prefer developing the type of property that would give them the highest return on their investment within a relatively short period of time.

30. The Committee asked the Secretary for Economic Services to elaborate on the information that he gave to the Office of the Chief Executive in April 1998 regarding the shortage of hotel rooms and to comment on the long-term development of the tourist and hotel industries. The **Secretary for Economic Services** said that the information on the shortage of hotel rooms was provided by the Hong Kong Tourist Association (HKTA). In arriving at the conclusion that it did not envisage any shortage of hotel rooms before 2002, the HKTA had assumed that all existing hotel development projects would be taken forward. However, it should be noted that the supply and demand of hotel rooms was subject to fluctuations, especially during the Asian financial crisis when the outlook for the industry had changed dramatically. It was also not certain at that time as to whether the developers would proceed with the various developments. It became clear a year later that development projects involving 4,000 hotel rooms had been put on hold.

31. From paragraph 3.14 of the Audit Report, the Committee noted that at a meeting on 29 September 1997 to consider the draft Ma On Shan Outline Zoning Plan (OZP), the Lands and Works Subcommittee of ExCo had expressed reservations about the viability and suitability of the proposed designation of the Ma On Shan site for hotel development and asked for further justifications from the HKTA. The Committee asked what justifications had been submitted by the HKTA to enable the ExCo Subcommittee to approve the draft OZP. The **Secretary for Planning, Environment and Lands** said that the HKTA considered that there was potential for the Sha Tin area to be developed into an international aquatic centre. It therefore supported the designation of the Ma On Shan site for hotel development. It was on this basis that the ExCo Subcommittee approved the draft OZP. The **Secretary for Economic Services** also said that the HKTA had identified the Sha Tin area as one of the new tourism nodes because of the presence of the Shing Mun River and the Sha Tin Race Course. It was also centrally located and was in the vicinity of the Tolo Harbour.

32. Noting that the HKTA had played an active part in justifying the Ma On Shan site for hotel development, the Committee asked who, in normal circumstances, would make the recommendation and the eventual decision to designate a certain site for hotel development. The **Secretary for Planning, Environment and Lands** said that town planning was a participatory process where extensive consultation was conducted. Prior to formulating a zoning plan for a certain district, the PELB would consult the relevant policy bureaux, government departments, professional bodies and other parties who were interested in the land use of the district. Comments would also be invited from these various parties on the specific proposals in the draft OZP. Afterwards, the draft OZP would be submitted to the TPB for approval. The approved OZP would then be gazetted according to law. As a large number of people had been consulted during the process, it would be difficult to ascertain the different weights given to the views expressed by individual parties.

33. The Committee noted Audit's views in paragraph 3.33 of the Audit Report that ExCo had not been informed of the trial scheme of designating the Ma On Shan site as one of the two sites for hotel development, the change in the land disposal policy and the financial implications of the possible loss in revenue in zoning the sites for hotel development. In paragraphs 3.34, 3.35 and 3.36 of the Audit Report, Audit also pointed out that the CSC had not been informed of replacing the originally approved Yuen Chau Kok site with the Ma On Shan site and the significant changes in the hotel industry, particularly the significant decline in the number of tourists and the increase in the supply of hotel rooms. The Committee asked why the above information was not provided to enable ExCo and the CSC to make informed decisions and whether these were deliberate attempts to withhold information from ExCo and the CSC.

34. The **Secretary for Planning, Environment and Lands** said that:

- in the context of the submission of the draft Ma On Shan OZP to ExCo in October 1997, ExCo had been fully informed that the Ma On Shan site was zoned specifically for hotel use. The use of land resources to support a certain sector of the community was a policy that had been formulated earlier. There was no ExCo paper on the use of this particular site as a trial scheme. However, ExCo had been kept in the picture concerning the rezoning of the site for hotel use; and

- the replacement of the Yuen Chau Kok site with the Ma On Shan site had not been brought up specifically because both sites were within the same area proposed in the trial scheme and it was only a matter of making a choice of location.

35. The **Secretary for Economic Services** added that the Chief Secretary and senior officials of the Administration were very much concerned about the hotel and tourist industries and were fully aware of the changes in the industry including the number of tourists and the occupancy rate of hotels which were published on a regular basis. Apart from the CSC, there were other occasions throughout the year for discussions on the developments in the industry and how it should be supported. This was evidenced by the creation of the post of the Commissioner for Tourism to promote the industry.

36. The Committee noted that in paragraph 3.39(a) of the Audit Report, the Secretary for Planning, Environment and Lands had stated that it was the responsibility of the relevant policy bureau to inform the CSC of any significant changes in the market sentiments and outlook for a particular industry and to seek the CSC's views on the appropriate strategy for the development of a particular industry. The Committee asked whether it was the view of the Secretary for Planning, Environment and Lands that in the Ma On Shan case, the Secretary of the relevant bureau had failed to perform his duty properly.

37. The **Secretary for Planning, Environment and Lands** said that it would have been the responsibility of the relevant policy bureau to notify the CSC if a certain policy had taken a new turn after it had been approved. However, what had happened in the Ma On Shan case was just that the timing of the award of the tender had coincided with the Asian financial crisis. As the second site had not been sold, and a decision as to how the trial scheme should proceed after the sale of the two sites had not been made, there was no evidence to show that the Administration had departed from its policy of rendering support to the tourist industry. Therefore, there was no question of the CSC not being informed. The **Secretary for Economic Services** also said that the Government had a clearly stated policy. The Government had taken a long-term view in its support of the tourist industry for the provision of sufficient hotel rooms at competitive prices. There had never been any changes in this respect.

38. The Committee noted that in paragraph 3.26 of the Audit Report, the Chairman of the CTB said at a meeting in March 1998 that the question of whether the Ma On Shan site should continue to be sold for hotel purposes was a matter for the PELB and the ESB to decide. However, the ESB was not consulted until an enquiry was made by the Office of the Chief Executive in April 1998. The Committee asked when the ESB was first consulted on the sale of the Ma On Shan site. The **Secretary for Economic Services** said that:

- ESB had been involved back in 1995 during the discussion on the policy to support the tourist industry. As the sale of the Ma On Shan site was a matter of land use, the ESB was not consulted. Even if the ESB had been consulted, he would have given the same advice that the Government should take a long-term view of the development of the tourist industry and that there was a need to support the hotel industry to make it more competitive; and

- it should be clarified that the enquiry of the Office of the Chief Executive was about the development in the hotel industry, and not about the disposal of the Ma On Shan site for hotel use. The ESB was also not in a position to comment on land prices.

39. In reply to the Committee's question as to why the remarks made by the CTB Chairman had not been followed up, **Miss Elizabeth TSE**, **Deputy Secretary for the Treasury**, said that the CTB was only responsible for vetting tenders, and for ensuring that the bureaux and departments concerned had adhered to the established tender procedures and that the whole tendering process was open and fair. The CTB could not possibly make a policy decision on behalf of the policy bureaux. Policy matters should be followed up by those attending the meeting. The **Secretary for Planning, Environment and Lands** also said that the views expressed by individual officials had been taken into account when the decision was made to proceed with the sale of the Ma On Shan site.

40. The **Secretary for the Treasury** subsequently provided the Committee with the relevant extracts of the CTB meeting held on 6 March 1998. The Secretary informed the Committee that the CTB Chairman's remarks at the meeting was intended to clarify the role of the CTB rather than to query the policy decision underlying the sale of the site for hotel use. The Secretary for the Treasury's decision to accept the Director of Lands' recommendation on the tender for the sale of the Ma On Shan site was conveyed to the Director of Lands on 6 March 1998. The Secretary also informed the Committee that the CTB had not conveyed the Chairman's remarks to the Secretary for Planning, Environment and Lands and the Secretary for Economic Services. Nor had the CTB consulted the Secretary for Economic Services about the sale of the Ma On Shan site for hotel purposes after the meeting. The Secretary for the Treasury's letters of 14 December 1999 and 21 December 1999 are in ***Appendices 28 and 29***.

41. In paragraph (g) of his letter of 16 December 1999 in ***Appendix 25***, the **Secretary for Planning, Environment and Lands** provided the Committee with the relevant extracts of the minutes of the CSC meetings of 17 July 1995 and 14 August 1995. The Secretary also set out the sequence of events to support the Administration's claim that ExCo had been informed of the zoning of the Ma On Shan site for hotel use.

42. In respect of the second site designated for hotel development, i.e. the Tsuen Wan site, the **Secretary for Planning, Environment and Lands** informed the Committee, in his letter of 21 December 1999 in ***Appendix 26***, that:

- the original intention was to sell the Tsuen Wan site in December 1998. After consulting the relevant bureaux and departments, it was decided in May 1998 that the situation would be reviewed in September 1998 with a view to ascertaining whether the scheduled sale should proceed. However, in June 1998, the Government announced a moratorium on land sale for the remainder of the 1998/1999 financial year as one of the measures to relieve the economic difficulties faced by Hong Kong; and

- the Tsuen Wan site had been included in the land sale programme for 1999/2000 and would be tendered through the application system.

43. Having regard to the evidence obtained at the public hearing and the written evidence subsequently provided by the Administration, the Committee considered that the sale of the Ma On Shan site should be viewed in perspective and in the light of the exceptional circumstances in which the trial scheme was approved. There was no evidence to suggest that the Administration had departed from its land sale policy. The Committee noted that the Administration had followed due process in tendering the site and that the award was considered acceptable by the CTB. The Committee considered that the crux of the matter lay in the valuation of the site for determining the tender deposit. The valuation was made by staff of relatively junior levels who had failed to take into account the effects of the Asian financial crisis and the potentially high construction costs due to the possible presence of cavernous marble. The Committee believed that the unrealistically high tender deposit had sent a misleading message to the market and might have deterred potential tenderers from putting in their tenders. This was reflected by the limited interest in the tender exercise. Having regard to the market sentiments at the time and the fact that the site had been zoned for hotel development, the Committee acknowledged that the tender price of $120 million was the market price at the time. In spite of the above, and in view of the changing circumstances at the time, the Committee were concerned that the matter had not been referred back to the CSC for reconsideration as to whether the tender should be accepted. In this regard, the Committee invited the Chief Secretary for Administration to comment on the following aspects:

- whether it was in order for the Secretary for Planning, Environment and Lands and the Director of Lands to proceed with the tendering of the Ma On Shan site without referring back to the CSC; and

- whether the absence of referral to the CSC amounted to negligence because of the omission of an important procedural step, in particular bearing in mind the exceptional circumstances in which the trial scheme was approved.

44. In her letter of 6 January 2000 in ***Appendix 30***, **Mrs Anson CHAN**, **Chief Secretary for Administration**, pointed out that:

- following its decision to proceed with a trial scheme to test the market with two sites earmarked specifically for hotel development, the CSC endorsed the principles for the selection of hotel sites proposed by the Planning Department at its meeting on 14 August 1995. As the selection of sites for hotel development had been undertaken in compliance with the policy and the site selection principles laid down by the CSC, there was no need for the Secretary for Planning, Environment and Lands and the Director of Lands to revert to the CSC before proceeding with the necessary statutory procedures and tendering; and

- the Administration sought the TPB's approval for the zoning of the Ma On Shan site for hotel development in accordance with the statutory provisions under the Town Planning Ordinance, and the approval of ExCo for the draft Ma On Shan OZP which contained the zoning of the hotel site. Approval by the appropriate authorities was duly given before the Ma On Shan site was disposed of by way of tender.

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

Purchasers' failure to complete land sale contract

- express dismay that:

  (i) notwithstanding the fact that the Conditions of Sale of both the Kowloon Bay and the Ap Lei Chau sites empowered the Government to recover all losses arising from the Purchasers' failure to complete the sale, the Government could not do so because the two Purchasers did not have any substantial assets;

  (ii) although the Government had the right to obtain a guarantee from the Purchasers' parent or associated company, such a guarantee had not been obtained when the tenders of the Kowloon Bay and the Ap Lei Chau sites were awarded to the Purchasers; and

  (iii) the Government suffered a loss of $248.4 million due mainly to the drop in land price upon the resale of the Kowloon Bay site. For the Ap Lei Chau site, the estimated loss was $162.9 million;

- acknowledge the statement made by the Director of Lands at the public hearing on 7 December 1999 that for the sale of Private Sector Participation Scheme (PSPS) sites and other sites involving Government facilities, the Administration would ensure that tenderers would be required to submit:

  (i) their tenders with statements of their financial and technical ability; and

  (ii) a parent or associated company guarantee upon the award of a tender;

- urge the Administration to strictly enforce:

  (i) the requirement in the Tender Conditions for PSPS tenders that a bank guarantee or a written parent or associated company guarantee must be submitted within 14 days from the award of the tender;

  (ii) the vetting of the financial statements of the guarantor in cases where such a requirement is contained in the Tender Conditions; and

  (iii) the requirement of the Tender Notice;

- urge the Administration to conduct a proper public consultation on imposing the following requirements in all land sale tenders:

  (i) prospective tenderers should submit their tenders with evidence of their ability to discharge their obligations under the Conditions of Sale; and

(ii) successful tenderers should procure a bank guarantee or a written parent or associated company guarantee for a sum equivalent to the balance of the tender price;

Sale by tender of the Ma On Shan site for hotel use

- express serious dismay that the Administration had not adjusted the valuation of the Ma On Shan site by taking into account the effects of the Asian financial crisis and the potentially high construction costs due to the possible presence of cavernous marble, resulting in:

  (i) an unrealistically high tender deposit requirement which had sent a misleading message to the market and which might have deterred potential tenderers from putting in their tenders;

  (ii) a possible dampening effect on the competition in the tendering exercise and missing the opportunity to realise the full potential value of the site; and

  (iii) a public controversy over the decision to award the tender at $120 million which had undermined the credibility of the Government;

- express serious concern that:

  (i) the Executive Council (ExCo) was not fully informed of the financial implications of possible loss of revenue in zoning sites specifically for hotel developments; and

  (ii) despite the fact that:

    (a) there were significant changes in the hotel and tourist industries since the Chief Secretary for Administration's Committee's (CSC) decision in 1995 to offer two pilot hotel sites for sale;

    (b) the Administration should have known by early 1998 that the tender deposit had been set excessively high;

    (c) there was limited interest in the tender exercise; and

    (d) the tenders returned were far lower than the Administration's expectation,

  the sale of the Ma On Shan site had not been referred back to the CSC, together with an options analysis, for its reconsideration as to whether it was really appropriate to award the tender at that time;

- consider that the flow of information within the Administration could have been more effective, if:

  (i) the Central Tender Board had referred the different views expressed at its meeting on the use of the Ma On Shan site for hotel purposes to the Secretary for Economic Services and the Secretary for Planning, Environment and Lands;

  (ii) the Secretary for Economic Services had informed the CSC of the significant changes in the market sentiments and the outlook for the hotel and tourist industries, and had sought, on a regular basis, the CSC's views on the appropriate strategy for the development of the industry; and

  (iii) the Secretary for Planning, Environment and Lands had referred the matter back to the CSC for in-depth deliberations, taking into account the changing circumstances and the different views expressed, before taking the final decision on the award of the tender;

- acknowledge that the Lands Department has been implementing the procedure of setting a reserve price for the sale of land by tender since the resumption of land sales in April 1999;

- note that:

  (i) the Government will review the proposed use of the Tsuen Wan site in consultation with the relevant policy bureaux and departments, if no application for its sale is received in 1999-2000; and

  (ii) regarding the other four sites which were identified as potential sites for hotel use, only two of the sites, which are in Hung Hom Bay, are still designated for hotel/service apartment development; and

- wish to be kept informed of:

  (i) the progress of sale of the Ap Lei Chau site as a mixed development project;

  (ii) the progress of the sale of the Tsuen Wan site; and

  (iii) the rezoning of the third site in Sha Tin for PSPS development.

In the Public Accounts Committee's Report No. 21 issued in January 1994, the Committee recommended that the Commissioner of Police take immediate action to identify Police officers with serious debts and relieve them of pecuniary embarrassment. Pursuant to the Report, the Administration has reported periodically to the Committee the results of indebtedness surveys carried out by the Hong Kong Police Force (HKPF) on a half-yearly basis. In late 1998, the Committee noted that the situation of indebtedness of Police officers had deteriorated as evidenced by the significant increase in the number of officers with unmanageable debts. In the Committee's Report No. 31 issued in February 1999, the Committee urged the Director of Audit to monitor the situation closely and report to them in due course.

2. The Committee noted that Audit had carried out this follow-up review to assess the state of indebtedness of Police officers and to examine the HKPF's measures for dealing with the problem of staff indebtedness to ascertain if there was any room for improvement.

3. Noting that the Legislative Council Panel on Security has set up a Sub-committee on Indebtedness of Police Officers to consider the matter, the Committee did not hold any public hearing on this subject. Instead, the Committee asked for written response to their enquiries.

4. According to paragraph 2.19 of the Audit Report, other indicators of staff indebtedness such as the percentage of staff involved in bankruptcies and the percentage of staff subjected to garnishee orders had revealed that the Correctional Services Department (CSD) and the Urban Services Department (USD) also had a serious problem of staff indebtedness.

5. The Committee therefore asked about the measures adopted by the CSD to address the problem of staff indebtedness. The Committee also enquired how the problem of indebtedness of USD staff would be dealt with following the passage of the Provision of Municipal Services (Reorganisation) Bill and the establishment of a new structure, including the Food and Environmental Hygiene Department and the Leisure and Cultural Services Department, for the delivery of municipal services.

6. The **Commissioner of Correctional Services** and the **Director of Urban Services** responded to the Committee's enquiries in their respective letters of 15 December 1999 in ***Appendix 31*** and 16 December 1999 in ***Appendix 32***. The Committee took note of the information provided therein.

The Committee noted that in view of the development of improved governmental financial reporting in developed countries, and the increasing public demand for public accountability for the use of government resources, Audit had conducted a review of the financial reporting framework of the Government.

2. From paragraphs 6.10 to 6.14 of the Audit Report, the Committee noted the various responses given by the participants of the two Departmental Resource Accounts pilot studies. According to paragraph 7.13, the Task Force, which was set up in April 1999 to review the Government's financial reporting policy and to look afresh at the use of accrual accounting in the Government, would seek and take into account the opinions of the parties concerned in determining the way forward. The Committee asked to be provided with a detailed update on the Task Force's assessment of the feedback from the parties concerned. The Committee also sought the Task Force's comments on whether there would be any problems that could not be overcome and would form an obstacle to the implementation of accrual accounting in the Government.

3. The Committee also noted the Secretary for the Treasury's remarks in paragraph 8.1(q) of the Audit Report that it was not practicable for the Task Force to finalise its work effectively before the end of 2000. The Committee asked whether the Task Force had established any key target dates between now and the end of 2000 for its work, and whether it had set up any work plan to consider the possible legal changes which would have an impact on the current budgetary process.

4. The response of the **Secretary for the Treasury** to the Committee's enquiries is set out in her letter of 24 December 1999, in ***Appendix 33***.

5. Noting that the Task Force has planned to complete its deliberations on the potential impact of the use of different accounting bases in June 2000, the Committee wish to invite the Director of Audit to consider whether there is a need to conduct a follow-up review on the subject in due course.

The Committee held public hearings on 16 December 1999 and 4 January 2000 to receive evidence on this subject from the Secretary for Works, the Director of Water Supplies and the Director of Health. The Committee also received additional information from the witnesses after the public hearings.

2. In view of the complexity of the various issues raised, the Committee will hold a third public hearing on 25 February 2000 to receive further evidence from the witnesses. In the circumstances, the Committee have decided to defer a full report on this subject.