REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE
ON
REPORT NO. 66 OF THE DIRECTOR OF AUDIT
ON
THE RESULTS OF
VALUE FOR MONEY AUDITS

July 2016

P.A.C. Report No. 66
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The Public Accounts Committee is established under Rule 72 of the Rules of Procedure of the Legislative Council of the Hong Kong Special Administrative Region, a copy of which is attached in Appendix 1 to this Report.

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

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

**Deputy Chairman** : Hon Paul TSE Wai-chun, JP

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

**Clerk** : Anthony CHU

**Legal Adviser** : Timothy TSO
The Committee's Procedure

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

(a) the public officers called before the Committee in accordance with Rule 72 of the Rules of Procedure, shall normally be the Controlling Officers of the Heads of Revenue or Expenditure to which the Director of Audit has referred in his Report except where the matter under consideration affects more than one such Head or involves a question of policy or of principle in which case the relevant Director of Bureau of the Government or other appropriate officers shall be called. Appearance before the Committee shall be a personal responsibility of the public officer called and whilst he may be accompanied by members of his staff to assist him with points of detail, the responsibility for the information or the production of records or documents required by the Committee shall rest with him alone;

(b) where any matter referred to in the Director of Audit's Report on the accounts of the Government relates to the affairs of an organisation subvented by the Government, the person normally required to appear before the Committee shall be the Controlling Officer of the vote from which the relevant subvention has been paid, but the Committee shall not preclude the calling of a representative of the subvented body concerned where it is considered that such a representative could assist the Committee in its deliberations;

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

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

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

(f) the Committee shall not allow written submissions from Controlling Officers other than as an adjunct to their personal appearance before the Committee; and
(g) the Committee shall hold informal consultations with the Director of Audit from time to time, so that the Committee could suggest fruitful areas for value for money study by the Director of Audit.

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

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

4. **The Committee's Report** This Report by the Public Accounts Committee corresponds with Report No. 66 of the Director of Audit on the results of value for money audits which was tabled in the Legislative Council on 20 April 2016. Value for money audits are conducted in accordance with the guidelines and procedures set out in the Paper on Scope of Government Audit in the Hong Kong Special Administrative Region - 'Value for Money Audits' which was tabled in the Provisional Legislative Council on 11 February 1998. A copy of the Paper is attached in *Appendix 2*.

5. **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.
Consideration of the Director of Audit's Report tabled in the Legislative Council on 20 April 2016  

As in previous years, the Committee did not consider it necessary to investigate in detail every observation contained in the Director of Audit's Report. The Committee has therefore only selected one chapter in the Director of Audit's Report No. 66 which, in its view, referred to more serious irregularities or shortcomings. The Committee has also sought and obtained information from the Administration on some of the issues raised in seven other chapters of the Director of Audit's Report No. 66. The Committee appreciates that, in response to the Committee's written questions, the relevant bureaux/departments have provided the Committee with lots of useful information to facilitate the Committee's better understanding of the subjects. The Administration's response has been included in this Report.

2.  **Meetings**  The Committee held a total of six meetings and one public hearing in respect of the subjects covered in this Report. During the public hearing, the Committee heard evidence from a total of 12 witnesses, including one Director of Bureau and four Heads of Department. The names of the witnesses are listed in Appendix 3 to this Report.

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

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

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

The Audit Commission ("Audit") conducted a review to examine the Rating and Valuation Department ("RVD")'s efforts in safeguarding revenue on rates and government rent.

Background

Rates

2. Rates are one of Hong Kong's indirect taxes levied on properties. For 2014-2015, the revenue collected from rates under the Rating Ordinance (Cap. 116) (after deducting the amount for rates concession) was $22.3 billion, accounting for about 4.7% of the total government revenue. Generally, properties in all parts of Hong Kong are liable to be assessed to rates under the Rating Ordinance. Rates are charged at a percentage (currently at 5%) of the rateable value which is the estimated annual rental value of a property at a designed valuation reference date, assuming that the property was then vacant and to let. The Rating Ordinance provides two forms of rates exemptions for specific types of properties. One is exemption from assessment to rates, whereby no assessment will appear in the Valuation List. The other is exemption from payment of rates, whereby an assessment is included in the Valuation List but the property is exempted from payment of rates.

Government rent

3. Government rent is the payment made by the Government lessee (the "owner") to the Government in return for the right to hold and occupy the land for the term (i.e. duration) specified in the lease document. The revenue collected from government rent is also part of the Government's general revenue. For 2014-2015, the revenue collected from government rent under the Government Rent (Assessment and Collection) Ordinance (Cap. 515) ("the Rent Ordinance") was $9.3 billion. The government rent is charged at 3% of the rateable value of the property situated on the leased land and is adjusted in step with any subsequent

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1 Please refer to Appendices A and B of the Director of Audit's Report ("Audit Report") for the types of properties exempted from assessment to rates and from payment of rates.
2 RVD maintains records of all properties that have been assessed to rates in a Valuation List.
3 Please refer to paragraph 1.5 of the Audit Report for government rent payable under other ordinances.
changes in the rateable value.\textsuperscript{4} The Rent Ordinance also provides for exemption of properties from liability to pay government rent. An indigenous villager or his lawful successor in the male line (or tso, or tong) who (or which) has continuously owned an old schedule lot, village lot, small house or other rural holding since 30 June 1984, or small house or resite house granted after that date is entitled to exemption from liability to pay government rent.

The Rating and Valuation Department

4. RVD is responsible for the assessment and collection of rates under the Rating Ordinance and government rent under the Rent Ordinance.

5. RVD maintains records of all properties that have been assessed to rates and those liable for assessment to government rent under the Rent Ordinance in a Valuation List and a Government Rent Roll respectively. RVD updates the Valuation List and the Government Rent Roll through General Revaluations ("GRs"),\textsuperscript{5} interim valuations and deletions.\textsuperscript{6} As at 1 April 2015, the Valuation List contained 2.43 million assessments (for 1.8 million domestic properties and 0.63 million non-domestic properties) with a total rateable value of $608.6 billion (a year-on-year increase of 7.9%), and the Government Rent Roll contained 1.89 million assessments with a total rateable value of $354.1 billion (a year-on-year increase of 8.3%).

6. Section 29(1) of the Rating Ordinance provides that any rates due on an interim valuation shall be payable from the date when the interim valuation became effective, or 24 months before the date of the issue of the first demand note, whichever is the later. This means that RVD cannot recover retrospectively the rates for more than 24 months. For government rent, the Rent Ordinance does not specify any time-bar for recovering government rent. Government rent due on an interim valuation is payable from the effective date of the interim valuation.

\textsuperscript{4} Please refer to paragraph 1.4(b) of the Audit Report for the types of properties which are generally liable for government rent under the Rent Ordinance.

\textsuperscript{5} RVD conducts GRs annually to bring the rateable values of all properties up to date to reflect changes in market rental values.

\textsuperscript{6} RVD may at any time make interim valuations of newly-built properties and properties which have undergone structural alterations and make deletions to remove properties which have ceased to be liable for assessment to rates/government rent.
The Committee's Report

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

- Introduction (Part A) (paragraphs 1 to 10);
- General Revaluations (Part B) (paragraphs 11 to 26);
- Interim valuations (Part C) (paragraphs 27 to 40);
- Rates exemption for rural properties (Part D) (paragraphs 41 to 50);
- Collection of rates and government rent (Part E) (paragraphs 51 to 55);

and

- Conclusions and recommendations (Part F) (paragraphs 56 to 58).

Public hearing

8. The Committee held a public hearing on 7 May 2016 to receive evidence on the findings and observations of the Director of Audit's Report ("Audit Report").

Opening statement by Secretary for Financial Services and the Treasury

9. Professor K C Chan, Secretary for Financial Services and the Treasury, made an opening statement at the beginning of the Committee's public hearing held on 7 May 2016, the summary of which is as follows:

- the Administration had been striving to safeguard revenue from rates and government rent, which were broad-based and stable sources of government revenue. The rates arrears rate had been maintained at around 0.4% in recent years, which was far below the arrears rate in other jurisdictions charging similar taxes;

General Revaluations

- rental information provided an important basis for the GR of rateable value each and every year. RVD would issue Requisition Forms for Particulars of Tenements (Form R1A) to selected properties, and
Efforts of the Rating and Valuation Department in safeguarding revenue on rates and government rent

require ratepayers to complete and return the forms, so that it could get hold of the relevant rental information. The return rate of Form R1A had reached some 80% in recent years, which showed that the majority of ratepayers had complied with the requirement to return the forms. The verification exercise conducted on a sample basis on the rental information furnished in the forms also showed that the information provided was correct for 70% of the cases;

- RVD would closely monitor the situation and step up enforcement actions, with a view to enhancing the reliability of information collected from the Requisition Forms. RVD would also touch base with the Buildings Department ("BD") to put in place a mechanism to collect information on subdivided properties, so that RVD could assess their rateable values more accurately to safeguard government revenue;

Interim valuations

- regarding interim valuations, for unauthorized building works ("UBWs") with rates already assessed, RVD had been collecting rates until the removal of the UBWs concerned. Following the rating principles under common law that properties of transient nature would not be so assessed, RVD had all along taken it that UBWs with removal orders issued would be demolished soon and could thus be regarded as properties of transient nature. However, as the Audit Report pointed out, it might take some time for individual UBWs to be demolished. In the light of the situation, the Financial Services and the Treasury Bureau ("FSTB") had asked RVD to put in place some form of bring-up system to keep track of those existing UBWs with removal orders issued but not yet demolished, such that timely interim valuations would be made within the 24-month time-bar in recovering rates, so as to better safeguard rates revenue;

Rates exemption for rural properties

- for rural properties, the Rating Ordinance provided that properties in designated village areas ("DVAs") were exempted from assessment to rates. As pointed out in the Audit Report, a village house located within a DVA would be entitled to exemption only if it complied with certain prescribed criteria in terms of number of storeys, floor area and height. The Administration agreed that it was incumbent on RVD to inspect the status of village houses within DVAs, so as to ensure that
only those in compliance with the prescribed statutory requirements were exempted from rates;

- since the above inspection exercise would involve inspection of some 16 000 village houses in 105 DVAs, the caseload was voluminous. It was only pragmatic for RVD to conduct inspection in a phased manner in view of competing priorities; and

Collection of rates and government rent

- as regards the long outstanding arrears cases with charging orders, RVD had been taking follow-up actions in an on-going manner. With a view to further facilitating the Lands Department ("LandsD") in taking action on bona vacantia cases, RVD had reminded its staff to notify LandsD of such cases as soon as practicable, and to request LandsD to inform RVD in a timely manner upon taking possession of the relevant properties, so that RVD could delete the rating assessments.

The full text of Secretary for Financial Services and the Treasury's opening statement is in Appendix 4.

10. Secretary for Financial Services and the Treasury also stated at the public hearing that Hong Kong received the best grades in "The Best and Worst of International Property Tax Administration: Scorecard on State and International Property Tax Administrative Practices" in September 2014. The valuation of properties for rates and government rent conducted by RVD achieved high grades in three areas, namely, transparency, simplicity and consistency, as well as procedural fairness.

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7 Section 752 of the Companies Ordinance (Cap. 622) provides that, where a company is dissolved, the property vested in the company immediately before its dissolution is vested in the Government as bona vacantia.

8 The research was carried out jointly by The Council On State Taxation, the United States, and the International Property Tax Institute, Canada, to provide an international scope for tax policymakers with best practices and a comparative measure of their property tax administrative practices.
B. General Revaluations

Rental information collection and verification

11. The Committee noted from paragraph 2.6(a) of the Audit Report that the landlord of a domestic property was required to lodge with RVD a Notice of New Letting or Renewal Agreement (Form CR109) in respect of any new letting or renewal agreement for endorsement. The Committee asked for the reason(s) for not requiring landlord of non-domestic property to submit Form CR109 (or any other form to that effect) to RVD in respect of any new letting or renewal agreement for endorsement.

12. Mr TANG Ping-kwong, Commissioner of Rating and Valuation, explained at the public hearing and in his letter dated 24 May 2016 (Appendix 5) that:

- under section 119L in Part IV of the Landlord and Tenant (Consolidation) Ordinance (Cap. 7), owners of domestic properties were required to submit Form CR109 for endorsement by Commissioner of Rating and Valuation. The form was a source of rental data for GR and compilation of property market statistics by RVD; and

- Part IV of the Landlord and Tenant (Consolidation) Ordinance had never been applicable to non-domestic tenancies. Hence, no submission of similar form for endorsement was required for tenancies of non-domestic properties. Nonetheless, RVD had obtained rental information of non-domestic properties from other sources. As pointed out in paragraph 2.6(b)(i) of the Audit Report, an RVD staff took photocopies of some tenancy agreements at the Stamp Office, mainly the tenancy agreements of non-domestic properties (such as shops, offices and factories) to collect relevant rental data.

13. The Committee also noted from paragraph 2.7 of the Audit Report that for GRs from 2010-2011 to 2015-2016, some 240 properties for which Form R1As had been received were selected (all multi-property ratepayers) each year for issuing letters requiring the ratepayers concerned to supply supporting documents for their furnished rental information (such as copies of tenancy agreements and rent receipts). The Committee enquired about the basis for selecting only about 240 properties each year for rental verification purposes.
14. **Commissioner of Rating and Valuation** said in his letter dated 24 May 2016 (Appendix 5) that RVD conducted a rental verification exercise each year by selecting 240 properties from Form R1As received, so as to allow it to review and enhance the templates of the Requisition Forms for making it clear to payers the information that they should furnish. Over the past three years, the in-order rate rose from 61% in 2013-2014 to 75% in 2015-2016. RVD would closely monitor the return of Form R1As and consider increasing the sample size if a growing trend in the number of cases with incorrect information was spotted. Moreover, for deterrent purpose, in the event of suspected false reporting and with sufficient evidence, RVD would take prosecution action.

15. In reply to the Committee's request, **Commissioner of Rating and Valuation** provided in his reply dated 24 May 2016 a breakdown by property type on the cases found in the rental verification exercises from the GR in 2010-2011 to the GR in 2015-2016 to have furnished incorrect information (Appendix 5).

16. According to paragraph 2.10 of the Audit Report, on average 67 (28%) of some 240 cases each year were found to have provided incorrect rental information in Form R1As during the rental verification exercises from the GR in 2010-2011 to the GR in 2015-2016. The Committee enquired about the measures taken/to be taken to improve the accuracy of rental information furnished in Form R1As, and whether consideration would be given to requiring ratepayers to submit copies of tenancy agreements and rent receipts together with their Form R1As to RVD.

17. **Commissioner of Rating and Valuation** said at the public hearing and explained in his letter dated 24 May 2016 (Appendix 5) that RVD had taken the following measures in strengthening the rental verification mechanism:

   - promoting and educating the public of their responsibility to furnish rental particulars accurately and comprehensively;
   - reviewing and enhancing the templates of the Requisition Forms to make it clear to payers the information that they should furnish;
   - encouraging the public to use RVD templates for submission to avoid omission; and
- reminding those who had submitted incorrect information of the importance of furnishing rental particulars accurately and comprehensively through telephone conversation, correspondence and customer liaison meetings.

18. **Commissioner of Rating and Valuation** further explained in his letter dated 24 May 2016 (Appendix 5) that under the Rating Ordinance and the Rent Ordinance, RVD might demand copies of tenancy agreements and rent receipts from rates/government rent payers for the assessment of rates and government rent. On environmentally friendly ground, RVD considered it unnecessary to request payers to return copies of relevant documents along with Requisition Forms. RVD would only request the payers of selected properties to provide copies of tenancy agreements and rent receipts for rental verification purpose.

19. In reply to the Committee's enquiry about the development of paperless solutions for capturing rental information, **Commissioner of Rating and Valuation** said in his letter dated 24 May 2016 (Appendix 5) that RVD was seeking Government Chief Information Officer's assistance in exploring the feasibility of developing paperless solutions for capturing rental information for stamped tenancy agreements for GR purposes.

20. According to paragraph 2.9 of the Audit Report, of some 307,700 Form R1As issued to obtain rental information for each annual GR from 2010-2011 to 2015-2016, about 56,400 (18%) ratepayers failed to return the Form R1As. The number of ratepayers who had failed to return Form R1As for three years consecutively increased by 22% from 6,100 in the GR in 2010-2011 to 7,417 in the GR in 2015-2016. In this regard, the Committee asked:

- measures taken/to be taken to increase the return rate of Form R1As;
- whether RVD would take more stringent enforcement actions against non-returned cases; and
- whether these non-returned cases would undermine the accuracy of rateable values generated in GRs.
21. **Commissioner of Rating and Valuation** explained at the public hearing and in his letter dated 24 May 2016 (Appendix 5) that RVD had taken the following measures for improving the return rate of Form R1As:

- promoting via press release, radio announcements of public interest, RVD website and MyGovHK, to remind the public of their responsibility to complete and return Requisition Forms;

- encouraging electronic submission of Form R1As via RVD website; and

- sending email to remind payers who used eRVD Bill to complete and return Requisition Forms on time.

In addition, RVD would consider the need to develop a mobile website to facilitate submission of Form R1As through mobile phones; and enhance the deterrent effect by strengthening prosecution of those who had not returned the Requisition Forms. Moreover, RVD would continue to monitor the return rate of the Requisition Forms and, should the situation get worse, consider taking appropriate actions to motivate the return of the Forms and to request Department of Justice to relay to the court whether or not the sentences (a fine generally ranged between $1,000 and $2,000) were sufficient to achieve a deterrent effect.

22. **Commissioner of Rating and Valuation** further explained at the public hearing and in his letter dated 24 May 2016 (Appendix 5) that:

- the return rate of the Requisition Forms had reached some 80% in recent years, which was already higher than other countries;

- apart from the Requisition Forms, RVD would also collect rental information from other sources, such as Form CR109 (See paragraph 12 above) and the stamped tenancy agreements;

- RVD's annual revaluation was based on the overall rental level of properties, and the impact of non-return of individual Requisition Forms on the revaluation exercise was limited; and

- after completion of each GR, a statistical audit was conducted by RVD, based on the "Standard on Ratio Studies" issued by the International Association of Assessing Officers, at a macro level to affirm that the
new rateable values were of reasonable, correct and consistent level as
at the valuation reference date, and that the required standard of
relative equity amongst individual assessments both between and
within different property groups had been achieved. The statistical
audits had shown that the accuracy of RVD's valuations had met the
international standard.

Penalties in respect of non-compliance with Form R1A submission requirement

23. The Committee enquired about the penalties in respect of non-compliance
with Form R1A submission requirement vis-a-vis those for not filing tax returns on
time or providing incorrect information in tax returns, and whether consideration
would be given to increasing the penalties for failure to return Form R1As or
providing incorrect information in Form R1As by making reference to the penalties
for failure to make tax returns or making incorrect tax returns, with a view to
achieving a greater deterrent effect.

24. Secretary for Financial Services and the Treasury said in his reply
in May 2016 (Appendix 6) that:

- according to the Rating Ordinance and the Rent Ordinance, any person
who refused to furnish particulars requested in Form R1A was liable to
a fine at level 3 (i.e. $10,000), and any person who knowingly made a
false statement in Form R1A was liable to a fine at level 4
(i.e. $25,000). In addition to the above penalties, a person convicted
under the circumstances as mentioned above was also liable to a fine of
treble the amount of rates and/or government rent undercharged;

- as regards the Inland Revenue Ordinance (Cap. 112), any person who
without reasonable excuse failed to file a tax return was liable to a fine
at level 3 (i.e. $10,000) (i.e. same with the penalty for refusing to
furnish particulars requested in Form R1A), and any person who
without reasonable excuse made an incorrect return was liable to a fine
at level 3 (i.e. $10,000). Any person who wilfully with intent to
evade tax made any false statement in a tax return was liable to a
maximum penalty of a fine at level 5 (i.e. $50,000) and imprisonment
for 3 years. In addition to the above penalties, a person convicted
under the circumstances as mentioned above was also liable to a fine of
treble the amount of tax undercharged;
- Form R1A and tax return were of different nature. Whilst the penalty provisions relating to the two were similar in certain parts, they were not entirely comparable to each other. For tax return, generally, each taxpayer had to file tax return annually, and the Inland Revenue Department would compute the tax amount to be payable by a taxpayer based on the information furnished in the tax return filed by the taxpayer and other information available to the Inland Revenue Department. In other words, the information (e.g. on income and deductions) furnished by the taxpayer in the tax return would affect the tax amount required to be paid by that taxpayer for a certain Year of Assessment;

- Form R1A served as one of the sources from which RVD collected rental information. RVD would make use of the rental information provided by ratepayers in Form R1A as well as information collected from other sources to analyze the overall market rental level, on which the assessment of the rateable value of the tenement concerned was based. In other words, the rates chargeable by RVD were based on rateable value of the tenement concerned, rather than the rental amount provided by the ratepayer in Form R1A; and

- the current penalties relating to Form R1A (i.e. $10,000 for refusal to furnish particulars requested in the form, and $25,000 for knowingly making a false statement in the form) were appropriate. RVD would enhance the prosecution work in accordance with the legislative provisions and the actual facts of the case, to the extent permitted by the manpower resources available. At present, the amount of fines sentenced by the court was around $1,000 to $2,000, which was lower than the statutory limit. RVD would closely monitor the return rate of Form R1As. In case the situation deteriorated notably, RVD would seek to reflect the situation through the Department of Justice to the court, so that the court might take the latest trend into account when sentencing.

Required property alteration information not reported in Form R1As

25. According to paragraphs 2.12 and 2.15 of the Audit Report, Audit's test check results suggested that ratepayers might not be forthcoming in disclosing information on their subdivided properties. In response to RVD's request in March 2012, BD had provided RVD with a list of 116 buildings which were found
in 2011 to have 800 subdivided properties. BD also informed RVD that another 339 buildings would be inspected in its large-scale operations in 2012. However, in September 2012, when RVD tried to obtain a comprehensive list of subdivided properties identified in all BD's large scale operations, it was informed by BD that such a list was not available. As the subdivided property information of BD could help RVD detect the omission or under-reporting of subdivided property information in Form R1As, the Committee asked for the measures that RVD and BD would take to improve the sharing of information on subdivided properties.

26. **Commissioner of Rating and Valuation** said at the public hearing that RVD would request BD to provide the addresses of subdivided properties identified by BD, and make use of such information to identify ratepayers of subdivided properties who had under-reported subdivided property information in their Form R1As. **Mr HUI Siu-wai, Director of Buildings,** undertook at the public hearing that BD would share with RVD the information on subdivided properties required for rating assessment purposes.

C. Interim valuations

Policy decision of not collecting rates from new or re-erected illegal rooftop structures

27. According to paragraph 3.10 of the Audit Report, in November 2000, the then Secretary for the Treasury endorsed the proposal of a Task Force of the then Planning and Lands Bureau to cease collecting rates from new or re-erected illegal rooftop structures having regard to the prompt actions that would be taken by BD to clear new or re-erected illegal rooftop structures. In view of the long time taken to demolish illegal rooftop structures and other assessable UBWs and the 24-month time bar in recovering rates, the Committee asked whether the Administration would consider reviewing the 2000-2001 policy decision of not collecting rates from new or re-erected illegal rooftop structures.

28. **Secretary for Financial Services and the Treasury** stated at the public hearing that the arrangement arising from the 2000-2001 policy decision of not collecting rates from new or re-erected illegal rooftop structures would no longer be implemented. But he later on advised in his reply in May 2016 (Appendix 6) that:
the decision of not collecting rates from new or re-erected illegal rooftop structures was part of the package of measures drawn up by the Administration in 2000-2001 to tackle UBWs. Since the Administration expected at that time that new or re-erected illegal rooftop structures would be stopped promptly, the decision concerned was in line with the principles adopted by RVD all along, i.e. properties of transient nature would not be assessed to rates;

having examined the matter, FSTB considered that the policy intention of the decision concerned remained appropriate, though there was room for improvement in its implementation;

as the Audit Report pointed out, it might take some time for individual UBWs to be demolished after removal orders had been issued by BD. FSTB therefore considered that, on the premise of maintaining the above rating principles, the Administration would need to ensure that UBWs would not keep on being exempted from rating assessment due to delay in their demolition. The Administration would therefore improve the arrangements; and

for new or re-erected illegal rooftop structures, RVD would put in place a bring-up system to keep track of those new or re-erected illegal rooftop structures with removal orders issued but not yet demolished. The bring-up system would also cover other UBWs with removal orders issued but not yet demolished, such that timely interim valuations would be made and rates be charged on that basis before the 24-month time-bar. As regards existing illegal rooftop structures (i.e. those not being new or re-erected cases) and UBWs already assessed to rates, RVD had all along been collecting rates from these structures until they were demolished.

29. Since Secretary for Financial Services and the Treasury stated at the public hearing that the arrangement arising from the 2000-2001 policy decision of not collecting rates from new or re-erected illegal rooftop structures would no longer be implemented, but his subsequent written reply after the hearing stated that the policy intention of the decision concerned remained appropriate, though there was room for improvement in its implementation, the Committee has written to the Secretary for Financial Services and the Treasury to request for clarification on whether the 2000-2001 policy decision remained valid and the reasons for advising the Committee at the public hearing that the policy decision would no longer be implemented by the Administration.
30. **Secretary for Financial Services and the Treasury** stated in his reply dated 7 June 2016 (Appendix 7) that:

- at the public hearing on 7 May 2016, Secretary for Financial Services and the Treasury mentioned that the November 2000 arrangement would no longer be implemented. He also mentioned that:

  (a) the premise on which the then Secretary for the Treasury responded to the relevant proposal was in line with the principles adopted by RVD in handling UBWs, i.e. no rates would be collected on properties if they were of transient nature; and

  (b) FSTB had asked RVD to put in place some form of bring-up system to keep track of those UBWs with removal orders issued but not yet demolished, such that timely interim valuations would be made within the 24-month time bar in recovering rates;

- as set out in Secretary for Financial Services and the Treasury's reply in May 2016 (Appendix 6), he considered that the policy intention of the decision concerned remained appropriate, though there was room for improvement in its implementation;

- for new or re-erected illegal rooftop structures, RVD would no longer hold up the rating assessment on such structures across the board. Under the bring-up system as mentioned above, if any such structures with removal orders issued but not yet demolished in 24 months, RVD would make timely interim valuations such that rates would be charged on such structures (including rates to be recovered for the 24-month period concerned) in good time. This had changed the implementation arrangement made in November 2000; and

- the relevant formulation was not inconsistent with the remarks made by Secretary for Financial Services and the Treasury at the hearing, and was also in line with his understanding on the expression at the hearing that "a structure would not be exempted from rates solely because it is an UBW".  

The Committee noted from paragraphs 3.13 to 3.15 of the Audit Report that RVD issued a departmental instruction in 2005 covering both illegal rooftop structures and other types of assessable UBWs.\(^9\) It stipulated that RVD staff should not take any further action on un-assessed illegal rooftop structures/UBWs subjected to BD's removal orders, on the assumption that their existence would be transient. However, RVD's presumption that after the issue of removal orders, the illegal rooftop structures/UBWs would be demolished soon turned out to be not always valid. Of 54,637 assessable UBWs cases with removal orders issued from 2001 to 2015, 16,304 (30%) had not been complied with as at 31 December 2015, with 10,192 having remained outstanding for two years or more. In this regard, the Committee asked for an estimate on the loss of rates revenue in the past five years due to RVD's arrangement of not collecting rates from existing illegal rooftop structures and other UBWs subjected to BD's removal orders but not yet assessed to rates.

32. **Commissioner of Rating and Valuation** explained in his letter dated 24 May 2016 (Appendix 5) that:

- based on Table 7 of paragraph 3.17 of the Audit Report, and with appropriate adjustment for transient cases (i.e. those with orders issued within one year), already assessed cases and other non-assessable cases, RVD had arrived at a rough estimate in the amount of about $4.2 million per annum of rates income if such UBWs (referring to such major types of UBWs as those on top roofs, side roofs, lane/yard, subdivided units and basement excavation) would have been assessed, representing only 0.02% of the total rates revenues in 2016-2017. However, this was a rough revenue estimate which could not be treated as a proper basis for collecting the additional rates; and

- RVD estimated that it needed to spend $11.1 million in terms of staff cost for assessing these UBWs to rates (about 2% of the total departmental expenditure in 2016-2017).

At the request of the Committee, Commissioner of Rating and Valuation provided the basis of arriving at the above rough estimates of $4.2 million per annum of rates income if the said UBWs would have been assessed and $11.1 million in terms of staff cost for assessing these UBWs to rates (Appendix 8).

\(^9\) RVD had issued a departmental instruction covering illegal rooftop structures in 2002. The 2005 departmental instruction was an expansion of the 2002 version covering both illegal rooftop structures and other types of assessable UBWs.
33. In reply to the Committee's further question on the measures to improve the collection of rates from existing illegal rooftop structures and other UBWs subjected to BD's removal orders but not yet assessed to rates, Commissioner of Rating and Valuation explained at the public hearing and in his letter dated 24 May 2016 (Appendix 5) that RVD would put in place a regular bring-up system to keep track of those UBWs with removal orders issued but not yet demolished, so that timely interim valuations would be made within the 24-month time-bar in recovering rates. The details of the bring-up system were as follows:

- BD had undertaken to regularly provide RVD with lists of specific types of UBWs, covering UBWs with removal orders issued but not yet demolished (such UBWs might be assessable to rates) and demolished UBWs as well as UBWs which were not issued with removal orders, but involved high rental values and were difficult to detect by general external inspections (e.g. subdivided properties and basements);

- RVD would set up a database to store the data collected from BD and analyze such data by reference to RVD's records. RVD would regularly update the list, and demolished UBWs would be excluded from the list; and

- RVD would deploy its staff to inspect and assess the UBWs which were issued with removal orders 15 months before and still standing, so that timely interim valuations would be made within the 24-month time-bar.

Sharing of information on unauthorized building works

34. According to paragraphs 3.10 and 3.22 of the Audit Report, starting from 2001-2002, RVD and BD had established notification arrangements for UBWs. However, based on a test check of 85 removal orders selected from BD's database in January and February 2016, Audit found that only 7 (8%) of them were copied to RVD. BD said that the notification arrangements of UBWs established since 2002 had not been fully put into practice over the years. In this regard, the Committee asked why the notification arrangements had not been fully put into practice.
35. **Director of Buildings** said in his letter dated 24 May 2016 (*Appendix 9*) that:

- the notification arrangements were first set up in 2001 to facilitate RVD's review of the rateable values of new or re-erected illegal rooftop structures on single-staircase buildings to avoid overcharging of rates and had generally been implemented by BD;

- the purpose of extending the notification arrangements to other types of UBWs in 2004 was to facilitate RVD's review of the rateable values of properties with UBWs removed, i.e. avoiding overcharging of rates. However, the extended arrangements had resulted in a drastic increase in the number of removal orders and compliance letters required to be sent to RVD;

- in addition, BD's manpower at that time had already been in full stretch owing to the need to step up enforcement actions on UBWs erected on external walls of buildings and illegal rooftop structures on single-staircase buildings, handle the large number of reports on UBWs and tackle other building safety initiatives; and

- due to the enormous workload on ongoing initiatives since 2000s, BD could not put the extended notification arrangements fully into practice.

36. The Committee further noted from paragraph 3.22(b) of the Audit Report that in January 2016, BD informed RVD that it had decided to cease the notification arrangements of UBWs information required for rating assessment purposes. As information relating to UBWs was useful for RVD's rating assessment purpose, the Committee enquired about the reasons for making this decision and whether BD had consulted RVD before making such a decision.

37. **Director of Buildings** explained in his letter dated 24 May 2016 (*Appendix 9*) that:

- when reviewing its manpower for redeployment of resources to clear backlog orders in February 2014, BD noted that the notification arrangements for UBWs had not been fully put into practice due to the large number of orders and letters involved and the heavy workload on various building safety initiatives. Based on BD's operational
experience, the information provided under the notification arrangements would not be sufficient in meeting RVD's needs and RVD would require further details of UBWs, such as copies of plans, photos and inspection reports by BD in some cases. Hence, BD decided to cease the notification arrangements and annul the instruction; and

- to follow up the recommendations in Chapter 1 of the Audit Report No. 64 regarding BD's actions on UBWs issued in April 2015, BD had conducted a review on its work process and internal instructions to enhance its efficiency and reprioritize its work. In January 2016, BD noted that the instruction for the notification arrangements for unauthorized signboards remained in force while such arrangements had not been fully put into practice due to the workload situation. In order to redeploy manpower to clear backlog orders and due to the heavy workload arising from the notification arrangements, BD ceased the notification arrangements for unauthorized signboards. Accordingly, BD notified RVD that the notification arrangements for UBWs information had been ceased.

38. In response to the Committee's enquiry on whether RVD had followed up with BD on sharing the information relating to UBWs, including subdivided property, illegal rooftop structure and other UBWs, **Commissioner of Rating and Valuation** explained at the public hearing and in his letter dated 24 May 2016 (Appendix 5) that upon receiving the memo from BD in January 2016 about the cessation of the notification arrangement, RVD had enquired about the background of the decision. It was the intention then that RVD would reactivate negotiation with BD of setting up afresh a notification mechanism when the Audit Report was released. RVD had a meeting with BD on 12 May 2016 and the two departments agreed to put in place a cost-effective, regular and paperless notification mechanism. In each quarter, BD would send to RVD lists retrieved from its computer systems covering UBWs with removal orders issued but not yet demolished (such UBWs might be assessable to rates) and demolished UBWs.

39. The Committee further asked whether consideration would be given to using big data technology to capture information on UBWs to facilitate the sharing of information among relevant departments for the purpose of rates and government rent assessment.
40. Secretary for Financial Services and the Treasury said in his reply in May 2016 (Appendix 6) that RVD would, when enhancing its information technology system, considered the views of the Committee and considered whether there was a need to make use of big data technology. From the rating perspective, not all UBWs in BD's records were rateable items. Moreover, according to the analysis of reassessed cases completed in recent years, the average increase in rateable values which could be brought about by UBWs on the rooftop, flat roof and lane/yard was less than 5%. RVD would therefore need to consider the actual effectiveness of using the technology in enhancing the collection of property information for assessment of rates and government rent, and whether it was cost-effective to do so.

D. Rates exemption for rural properties

Exemption from assessment to rates for village houses within designated village areas

41. According to paragraph 4.7 of the Audit Report, as at January 2016, RVD had completed interim valuations of properties in 44,811 of 45,000 un-assessed rural lots in the New Territories for government rent assessment. RVD had conducted site visits and collected data on the physical attributes of the un-assessed houses. Audit examined RVD's government rent records of 228 houses in 12 selected villages within nine DVAs. According to RVD records, 18 of the 228 houses were found to be four-storey or five-storey buildings. However, RVD had not taken actions to cancel the exemption from rates of these 18 houses which did not comply with the prescribed three-storey criterion. The Committee enquired about the reasons for not taking actions on these houses which did not comply with the exemption criteria.

42. Commissioner of Rating and Valuation explained in his letter dated 24 May 2016 (Appendix 5) that in the early years, the assessment and collection of rates were only confined to the properties in the urban area. Starting from 1954, the rating system adopted in the urban area was extended by phases to the New Territories. The whole area of the New Territories was included in the rating area in 1988. Separately, the Rating Ordinance stipulated that the properties in DVAs were exempted from assessment to rates. Hence, RVD pooled its resources together previously to assess the houses outside DVAs where more rateable properties were found and to consider if the boundaries of DVAs should be revised. Any part of the DVAs which no longer met the relevant exemption criteria would be taken out from the DVAs, and the village houses within the part so removed would no longer be
exempted on such basis. RVD had all along been taking forward such duties in a prudent manner in order to safeguard government revenue on rates. Since 1992 when the relevant policy was established, RVD had conducted a total of seven exercises to amend the boundaries of DVAs and had de-designated 227 DVAs.

43. **Commissioner of Rating and Valuation** further explained in the same letter (Appendix 5) that in response to the findings and recommendations of the Audit Report, for the houses within DVAs where non-compliance had been detected and where rateable values had been assessed for government rent purposes, RVD would issue rates demands in the following few months. As to other non-compliant houses within DVAs, RVD would work out a plan by the fourth quarter of 2016 to assess them to rates, with a view to issuing rates demands in phases starting from the first quarter of 2017. RVD would also seek the assistance of BD and LandsD to provide information on ineligible cases detected in the course of their enforcement action with a view to expediting the whole assessment process.

44. In view of the additional workload from the above improvement measures and the new bring-up system on UBWs, the Committee asked whether RVD planned to seek additional resources and manpower for implementing these new measures, **Commissioner of Rating and Valuation** said at the public hearing and in his letter dated 24 May 2016 (Appendix 5) that as RVD was in the process of making an assessment on the resources involved in taking forward the various recommendations for enhancing operation as set out in the Audit Report, it could not provide at that stage an estimate of the additional resources required. By reviewing the nature and importance of various tasks from time to time, RVD would set its work priorities and pay regard to cost-effectiveness so as to strike a proper balance. If necessary, RVD would make an application for allocating additional resources for the extra work.

**Exemption from payment of rates for village houses outside designated village areas**

45. The Committee noted from paragraph 4.19 of the Audit Report that Audit scrutiny of the inspection results of 120 rates-exempted village houses outside DVAs revealed that 48 (40%) of them had been found having UBWs. In addition, Audit's site inspections conducted in December 2015 in three villages also found 11 rates-exempted houses with suspected UBWs. The Committee asked the Home
Affairs Department ("HAD")\textsuperscript{10} for the measures it would take to improve the follow-up actions on ineligible rates-exempted cases outside DVAs.

46. Miss Janice TSE Siu-wa, Director of Home Affairs, said at the public hearing and Secretary for Financial Services and the Treasury stated in his consolidated reply in May 2016 (Appendix 6) and his reply dated 7 June 2016 (Appendix 7) that:

- HAD relied heavily on the assistance of other departments for detecting non-compliance of rates exemption conditions, and amongst these, UBWs. Under the existing mechanism, HAD had implemented various measures to ensure that timely actions would be taken on ineligible rates-exempted houses outside DVAs. If non-compliance of application condition was found, HAD would take follow up actions including revoking the exemption granted to the tenements, if appropriate;

- at present, HAD randomly selected exempted cases for LandsD to conduct field inspection regarding the existence of UBWs. Regarding paragraph 4.23(b) of the Audit report which recommended stepping up field inspections of rates-exempted houses outside DVAs, this would involve additional resources;

- in the light of FSTB’s suggestion, HAD and LandsD had agreed to further discuss and consider how to make the best use of existing resources to enhance the effectiveness of field inspections; and

- regarding the recommendation in paragraph 4.23(c) of the Audit Report (about village houses with UBWs detected), HAD had already started exploring with BD the sharing of information on UBWs in rates-exempted houses in the New Territories through the use of information technology. It was expected that, through efficient electronic data matching and checking, it would enable early detection of non-compliance due to UBWs without generating unaffordable additional workload.

\textsuperscript{10} The Chief Executive has delegated to the Director of Home Affairs the authority to grant exemption from payment of rates for eligible village houses outside DVAs. Please refer to paragraph 4.10 of the Audit Report for details of the prescribed eligibility criteria for exemption from payment of rates for village houses outside DVAs.
The measures taken by HAD to ensure that timely actions would be taken on ineligible rates-exempted houses outside DVAs are in Appendix 10.

47. The Committee further asked LandsD about the measures that it would take to ensure the completion of document checks and field inspections of rates-exempted village houses requested by HAD in a timely manner.

48. Ms Bernadette LINN, Director of Lands, said at the public hearing and Secretary for Financial Services and the Treasury stated in his consolidated reply in May 2016 (Appendix 6) that:

- LandsD had reminded all the New Territories District Lands Offices ("NTDLOs") in writing on 21 April 2016 of the following:

  (a) the result of the field inspections and matching checks should be provided to HAD in a timely manner;

  (b) all matched cases should be reported to HAD as and when UBW was detected, without waiting for the registration of the warning letter in the Land Registry; and

  (c) when reporting to HAD, sufficient information of the matched cases should be provided, including the date of detection of the UBW and the information of the properties on which the UBW was erected/detected; and

- in order to enhance the efficiency of the matching checks, LandsD would further liaise with HAD to explore measures to improve the compatibility of data between the two departments, so that automated checking could be introduced as far as practicable.

Exemption from assessment to rates for agricultural land and buildings

49. According to paragraph 4.21 of the Audit Report, in 2015, RVD and LandsD agreed that the District Lands Offices would notify RVD of the re-entry/vesting cases, cancellation of re-entry/vesting cases and cases of unauthorized structures on
agricultural land demolished. However, the notification arrangement did not cover unauthorized structure cases to which LandsD had issued warning letters. As LandsD's enforcement information would help RVD identify those agricultural land and buildings which had become ineligible for rates exemption due to change of use, the Committee asked whether LandsD would consider extending the exchange of information on unauthorized structure cases to which LandsD had issued warning letters.

50. **Secretary for Financial Services and the Treasury** stated in his consolidated reply in May 2016 (Appendix 6) that LandsD had already followed up with RVD to explore extending the notification arrangement to cover unauthorized structures on agricultural land to which LandsD had issued warning letters. As agreed between the two departments, NTDLOs would copy warning letters issued by them in respect of these unauthorized structures to RVD in parallel, so that RVD could revoke the rates exemption for the agricultural land involved.

E. **Collection of rates and government rent**

51. The Committee noted from Table 17 of paragraph 5.5 of the Audit Report that as at 30 September 2015, the total amount of outstanding rates and government rent was $172 million, representing 0.5% of the annual amount demanded of about $33 billion. An ageing analysis of the outstanding rates and government rent showed that $54 million (31%) had been outstanding for two years or more. In 2014-2015, the amount of irrecoverable rates and government rent written off totalled $0.63 million. The Committee asked for the measures to be taken by RVD to improve the follow-up actions on the arrears cases.

52. **Secretary for Financial Services and the Treasury** said at the public hearing that RVD had taken follow-up actions on more than 20,000 outstanding arrears cases each year and recovered over $100 million outstanding rates annually through legal actions or after issuing warning letters. **Commissioner of Rating and Valuation** supplemented at the public hearing and in his letter dated 24 May 2016 (Appendix 5) that:

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11 Section 36(1)(a) of the Rating Ordinance provides that agricultural land and buildings thereon used in connection with such land are exempted from assessment to rates. Such exempted land and buildings are mostly situated in the New Territories.
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Efforts of the Rating and Valuation Department in safeguarding revenue on rates and government rent

- RVD would take all legal means to recover arrears in rates and government rent, including issuing warning letters and taking legal actions at Small Claims Tribunal or District Court. RVD had reviewed internal procedures and redeployed the limited resources in accordance priority to protecting Government's interest by speeding up legal actions on arrears cases, including application of charging orders for the judgments obtained;

- while on legal advice, in general a charging order could provide adequate protection to the interest of the Government, RVD would seek all practicable and legal means to recover arrears in respect of properties subject to charging orders;

- under the existing mechanism, when failing all legal means to recover the arrears and no other practicable action was available after seeking legal advice, RVD would refer the case to LandsD for considering re-entry/vesting actions against the property under the Government Rights (Re-entry and Vesting Remedies) Ordinance (Cap. 126) where government rent was involved; and

- having considered Audit's recommendations and reviewed RVD's internal procedures for recovery of arrears, RVD would remind the staff concerned to refer long outstanding arrears cases with charging orders earlier where warranted to LandsD for consideration of re-entry/vesting action.

53. In reply to the Committee's request, Commissioner of Rating and Valuation provided in his reply dated 24 May 2016 a breakdown of the outstanding rates and government rent by the number of cases and range of the outstanding amount for each case (Appendix 5), and the follow-up actions taken by RVD on these arrears cases (Appendix 5).

54. According to paragraph 5.7(b) of the Audit Report, of the 14 bona vacantia cases referred to LandsD from 2004 to 2015, LandsD only took possession of the properties in nine cases. The Committee asked for the measures to be taken by RVD and LandsD to improve the follow-up actions on bona vacantia cases.
55. **Secretary for Financial Services and the Treasury** said at the public hearing and in his consolidated reply in May 2016 (Appendix 6) that:

- in the course of recovering arrears, RVD searched for information on the owners or occupiers through different channels. For bona vacantia properties of dissolved companies, if RVD could not recover the arrears from the occupier, RVD would request LandsD to inform RVD upon taking possession of the relevant property, so that RVD could delete the rating assessment and update the account records, so as to complete the accounting procedure;

- whilst RVD did not possess first-hand information, RVD had reminded its staff to forward such notifications to LandsD as soon as practicable, with a view to further facilitating LandsD in taking action on bona vacantia cases;

- according to LandsD, the Administration might not be in a position to take possession or dispose of the bona vacantia properties under certain circumstances. Moreover, LandsD's follow up action on bona vacantia properties might not achieve the purpose of recovering outstanding rates and/or government rent thereof; and

- for bona vacantia cases mentioned by RVD, LandsD would continue to conduct investigation and take appropriate action. LandsD had reminded its staff to keep RVD informed, in a timely manner, of the possession and disposal of the property or other relevant information, including bona vacantia cases where the dissolved companies had applied for restoration, so as to facilitate RVD's updating of the rating assessment and account records.
F. Conclusions and recommendations

Overall comments

56. The Committee:

- notes that:

  (a) rates and government rent are broad-based and stable sources of government revenue. For 2014-2015, revenue collected from rates and government rent added up to $31.6 billion; and

  (b) given Hong Kong's narrow tax base, it is important for the Administration to strictly adhere to the provisions stated in the Rating Ordinance (Cap. 116) and the Government Rent (Assessment and Collection) Ordinance (Cap. 515) ("the Rent Ordinance") in collecting rates and government rent respectively, and take enforcement actions against non-compliance cases as necessary, in order to safeguard these stable sources of government revenue;

- expresses grave concern that findings of the Audit Commission ("Audit") and the Committee at the public hearing revealed that the Rating and Valuation Department ("RVD") had not made its best effort in collecting rental information, making interim valuations, collecting rates and government rent, and taking follow-up actions on ineligible rates-exempted cases in rural areas under the provisions of the Rating Ordinance and the Rent Ordinance. This had resulted in a loss of government revenue;

- stresses that the Administration's continued effort in preventing the loss of government revenue will be conducive to reducing pressure on government finances in the long run, and thus may help defer the need for raising taxes to tackle possible budget deficits in the future;

- considers that unless RVD is allocated with substantial additional manpower and resources to cope with the heavy workload arising from the assessment and collection of rates and government rent, it is incumbent upon the following departments to make collective and coordinated efforts to facilitate RVD's assessment and collection of
rates and government rent in a timely manner, in order to prevent the loss of government revenue:

(a) the Buildings Department ("BD") to share information with RVD on unauthorized building works ("UBWs") and subdivided properties required for rates assessment purposes;

(b) the Lands Department ("LandsD") to:
   - share information with RVD on re-entry/vesting cases, cancellation of re-entry/vesting cases and cases of unauthorized structures on agricultural land as well as unauthorized structure cases to which LandsD has issued warning letters;
   - remind the eight District Lands Offices ("DLOs") to complete document checks and field inspections of rates-exempted village houses outside the designated village areas ("DVAs") requested by the Home Affairs Department ("HAD") in a timely manner; and
   - take timely follow-up actions on bona vacantia cases; and

(c) HAD to step up the field inspections of rates-exempted village houses outside DVAs and obtain information from BD on village houses with UBWs detected, with a view to taking timely actions on ineligible rates-exempted cases outside DVAs;

- expresses grave concern that RVD's decision not to collect rates from un-assessed illegal rooftop structures (since 2002) and other types of assessable UBWs (since 2005) with removal orders issued by BD may give rise to apparent unfairness between those property owners who have complied with the Buildings Ordinance (Cap. 123) and also paid rates in accordance with the requirements under the Rating Ordinance, and those property owners whose UBWs were not assessed due to the above decision (hereinafter referred to as "the apparent unfairness issue");

- appreciates that Hong Kong received the best grades in "The Best and Worst of International Property Tax Administration: Scorecard on State
and International Property Tax Administrative Practices" 12 in September 2014. The valuation of properties for rates and government rent conducted by RVD achieved high grades in three areas, namely, transparency, simplicity and consistency, as well as procedural fairness;

Policy decision of not collecting rates from new or re-erected illegal rooftop structures

- expresses concern that in November 2000, the then Secretary for the Treasury endorsed the proposal of a Task Force of the then Planning and Lands Bureau to cease collecting rates from new or re-erected illegal rooftop structures having regard to the prompt actions that would be taken by BD to clear new or re-erected illegal rooftop structures ("the 2000-2001 policy decision"). RVD has not taken action on un-assessed illegal rooftop structures (since 2002) and other types of assessable UBWs (since 2005) with removal orders issued by BD, on the assumption that their existence would be transient. However, RVD's presumption that after the issue of removal orders, the illegal rooftop structures/UBWs would be demolished soon turned out to be not always valid. Of 54,637 assessable UBWs cases with removal orders issued from 2001 to 2015, 16,304 (30%) had not been complied with as at 31 December 2015, with 10,192 having remained outstanding for two years or more;

- expresses concern that despite the statement made by Secretary for Financial Services and the Treasury at the public hearing that the arrangement arising from the 2000-2001 policy decision would no longer be implemented, his subsequent written reply after the hearing stated that the Administration considered that the policy intention of the decision concerned remained appropriate, though there was room for improvement in its implementation;

- considers the statement and written reply given by Secretary for Financial Services and the Treasury convoluted and that he had failed to clearly and fundamentally address the apparent unfairness issue created by the 2000-2001 policy decision. This may lead to

12 The research was carried out jointly by The Council On State Taxation, the United States, and the International Property Tax Institute, Canada, to provide an international scope for tax policymakers with best practices and a comparative measure of their property tax administrative practices.
unnecessary confusion and uncertainty in respect of the Administration's stance on rates assessment of UBWs and collection of rates from owners of properties with UBWs. Secretary for Financial Services and the Treasury's statement and written reply also failed to show the Administration's determination in preventing the loss of government revenue;

- notes that RVD's rough estimation\(^{13}\) indicated that about $4.2 million per annum of rates income in the past five years was not collected as a result of the implementation of the 2000-2001 policy decision of not collecting rates from new or re-erected illegal rooftop structures. RVD also estimated that it needed to spend $11.1 million in terms of staff cost for assessing these illegal rooftop structures and other types of assessable UBWs;

- notes Secretary for Financial Services and the Treasury's reply that:

  (a) the Financial Services and the Treasury Bureau ("FSTB") has examined the 2000-2001 policy decision and considered that the Administration would need to ensure that UBWs would not keep on being exempted from rates assessment due to delay in their demolition; and

  (b) the Administration would improve the implementation arrangements. For new or re-erected illegal rooftop structures, RVD would put in place a bring-up system to keep track of those new or re-erected illegal rooftop structures with removal orders issued but not yet demolished. The bring-up system would also cover other UBWs with removal orders issued but not yet demolished, such that timely interim valuations would be made and rates be charged on that basis before the 24-month

\(^{13}\) Based on Table 7 of the Audit Report, and with appropriate adjustment for transient cases (i.e. those with orders issued within one year), already assessed cases and other non-assessable cases, RVD has arrived at a rough estimate in the amount of about $4.2 million per annum of rates income if such UBWs (referring to such major types of UBWs as those on top roofs, side roofs, lane/yard, subdivided units and basement excavation) would have been assessed.
time-bar,\textsuperscript{14} so as to prevent the loss of government revenue due to failure to collect rates on a timely basis;

- urges Secretary for Financial Services and the Treasury to re-examine the validity of the 2000-2001 policy decision having regard to the delay in demolition of illegal rooftop structures and other assessable UBWs, and the apparent unfairness issue arising from the 2000-2001 policy decision, in order to curb the loss of government revenue and to deliver a clear message to the public that UBWs are not exempted from rates;

- urges RVD to:

(a) expedite the implementation of the new bring-up system to keep track of those existing UBWs with removal orders issued but not yet demolished, and make timely assessments on UBWs that are not removed within three months;

(b) conduct a review of un-assessed UBWs cases due to the departmental instruction of not taking action on un-assessed UBWs with removal orders issued by BD, and make interim valuations where appropriate; and

(c) consider the feasibility/practicality of assessing all UBWs which would be subject to rates assessment and adjust the rates assessment only upon removal of the relevant UBWs;

Rental information collection, interim valuations and rates exemption

- expresses concern that RVD has not collected rental information, made interim valuations and conducted compliance checking of rates-exempted village houses in DVAs in the most effective, efficient and timely manner with a view to preventing the loss of government revenue. This was evidenced by the following:

\textsuperscript{14} According to section 29(1) of the Rating Ordinance, any rates due on an interim valuation shall be payable from the date when the interim valuation became effective, or 24 months before the date of the issue of the first demand note, whichever is the later. However, the Rent Ordinance does not specify any time-bar for recovering government rent. Government rent due on an interim valuation is payable from the effective date of the interim valuation.
(a) Form R1As are statutory returns essential for obtaining rental information for General Revaluation ("GR") purposes. Of some 307,700 Form R1As issued for each annual GR from 2010-2011 to 2015-2016, about 56,400 (18%) ratepayers failed to complete and return the Form R1As. However, RVD had only taken prosecution actions on an average of 43 non-returned cases each year in the same period;

(b) for the rental verification exercises conducted by RVD from the 2010-2011 GR to the 2015-2016 GR:

- RVD only selected about 240 properties (selected ratepayers were all multi-property ratepayers) each year for which Form R1As had been received (on average of 251,343 Form R1As received each year) for issuing letters requiring the ratepayers concerned to supply supporting documents for their furnished rental information (such as copies of tenancy agreements and rental receipts);

- on average 67 (28%) of some 240 cases selected for verification each year were found to have provided incorrect rental information in Form R1As. However, no prosecution action had been taken against the relevant persons in these cases; and

- the accuracy of rateable values generated in GRs might be undermined by inaccurate rental information furnished in Form R1As, which could affect the overall revenue from rates and government rent;

(c) subsequent to the 2000-2001 policy decision, RVD has not taken action on un-assessed illegal rooftop structures (since 2002) and other types of assessable UBWs (since 2005) with removal orders issued by BD. However, RVD staff were not reminded by the departmental instructions to check whether the un-assessed UBWs were new or re-erected cases before deciding

15 For the assessment and collection of rates and government rent under the Rating Ordinance and the Rent Ordinance, RVD maintains records of all properties that have been assessed to rates and those liable for assessment to government rent under the Rent Ordinance in a Valuation List and a Government Rent Roll respectively, which are updated through GRs, interim valuations and deletions.
not to take actions on these cases. As a result, rates were not collected from some existing illegal rooftop structures and other UBWs which were subjected to BD’s removal orders but not yet assessed to rates;

(d) RVD has not put in place a system for compliance checking of village houses in DVAs to ensure that they meet the prescribed eligibility criteria for rates exemption. In Audit's inspections of two DVAs, 58 village houses were found with four or five storeys, apparently not complying with the prescribed statutory three-storey criterion; and

(e) RVD has not taken timely follow-up actions on village houses which were identified in rent assessments as not meeting the eligibility criteria. As at January 2016, RVD has completed interim valuations of properties in 44,811 (99.6%) of 45,000 un-assessed rural lots in the New Territories for government rent assessment. Audit's sample check of RVD's government rent records of 228 houses in 12 selected villages within nine DVAs found that 18 houses did not comply with the prescribed three-storey criterion, but RVD had not taken actions to cancel their exemption from assessment to rates. Given the 24-month-time-bar, rates for some 4 to 16 years had become irrecoverable for these 18 houses;

- notes that RVD will inspect the status of village houses within DVAs in a phased manner, so as to ensure that only those in compliance with the prescribed statutory requirements are exempted from rates. For those houses within DVAs which have been found to be unable to meet the prescribed criteria for rates exemption and where rates assessments have been made, RVD will issue rates demands as soon as practicable. As regards other houses within DVAs, RVD will work out its work plan by the fourth quarter of 2016, with a view to issuing rates

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16 A village house within a DVA has to comply with the following prescribed size, height and type criteria in order to be qualified for exemption from assessment to rates:
(a) it will be a building of not more than three storeys and:
   (i) has a roofed-over area not exceeding 65.03 square metres and does not exceed 8.23 metres in height; or
   (ii) has a roofed-over area not exceeding 92.90 square metres, does not exceed 7.62 metres in height and complies with certain standard plans; or
(b) it is a pre-war dwelling house (i.e. built before 16 August 1945), irrespective of size and height, which is of the type normally built for New Territories residents.
demands to non-compliant houses by phases beginning from the first quarter of 2017;

- urges FSTB to consider reviewing the manpower and financial resources of RVD so that RVD could have the required resources in collecting rental information, making interim valuations and conducting compliance checking of rates-exempted village houses in DVAs in the most efficient, effective and timely manner, given that rates and government rent are stable sources of government revenue;

- urges RVD to:

  (a) give consideration to requiring ratepayers to submit supporting documents such as copies of tenancy agreements and rent receipts together with their Form R1As with a view to improving the accuracy of the rental information in Form R1As and streamlining the rental verification process;

  (b) encourage ratepayers to submit their Form R1As and supporting documents through electronic means;

  (c) educate the public of the need for compliance with Form R1A submission requirement through Government-led promotion effort;

  (d) for rental verification exercises in the future, use stratified sampling and include ratepayers of single-property so as to improve the accuracy of reported rental information;

  (e) take more stringent enforcement actions against cases of repeated non-compliance with Form R1A submission requirement;

  (f) review the departmental instructions of not taking actions on un-assessed UBWs with removal orders issued by BD to ensure that rates are collected from existing UBWs subjected to BD's removal orders but not yet assessed to rates;

  (g) put in place a control mechanism to ensure that follow-up actions on ineligible rates-exempted cases found in the course of government rent assessments are promptly taken; and
(h) review the government rent records of the village houses within DVAs and take prompt actions to revoke the rates exemption of ineligible cases;

Coordination among relevant government departments

- expresses grave concern that RVD has not made sufficient efforts to coordinate and solicit support from BD, LandsD and HAD to provide useful information to facilitate the assessment of rates and government rent in a timely manner. This is evidenced by the following:

(a) despite there were agreed notification arrangements of assessable UBWs between BD and RVD, BD only instructed its staff to provide to RVD hardcopy of the removal orders for illegal rooftop structures and advertising signs but not for other types of assessable UBWs. Based on Audit's test check of 85 removal orders selected from BD's database, only 7 (8%) were copied to RVD;

(b) despite that BD's information on UBWs, including subdivided properties, illegal rooftop structures and other UBWs, was essential for RVD to assess UBWs in a timely manner, BD decided in January 2016 to cease the notification arrangements of UBWs information required for rates assessment purposes;

(c) under the agreed notification arrangements, BD was not required to provide RVD with information on assessable types of actionable UBWs without removal orders issued, and the number of such cases totalled 59,032 from 2001 to 2015. Audit's examination of 1,000 cases with assessable UBWs found that 549 cases might not have been reviewed by RVD;

(d) while DLOs of LandsD have been assisting HAD\(^{17}\) to carry out compliance checking of rates-exempted houses outside DVAs,

\(^{17}\) Applications for exemption from payment of rates for village houses outside DVAs have to be made to HAD for authentication. After authentication, HAD will forward the application forms to RVD for recommendation on whether exemption should be granted. RVD verifies the details of the village houses in the application forms and, if necessary, conducts site inspections. The application forms together with RVD's recommendation are then returned to HAD for approval. Once the rates exemption is granted, RVD will stop issuing rates demand notes to the applicants.
some document checks and field inspections requested by HAD were not completed by DLOs in a timely manner. For example, of the 270 field inspections requested by HAD from June 2014 to June 2015, 22 (8%) were still outstanding as at December 2015;

(e) there was no established arrangement for LandsD to provide RVD with the information on cases of unauthorized structures on agricultural land to which LandsD has issued warning letters. This information could facilitate RVD in identifying ineligible rates-exempted cases; and

(f) given the 24-month time-bar in recovering rates, there is a risk of loss of revenue if the rateable values of properties with assessable UBWs are not reassessed in a timely manner;

- notes that:

(a) RVD and BD have agreed to put in place a regular notification mechanism on UBWs. BD will retrieve the relevant information from its computer system, on a quarterly basis, and will forward the information to RVD in a paperless manner;

(b) RVD will request BD and LandsD to provide information on ineligible cases detected in the course of their enforcement work, with a view to expediting RVD's inspection exercise of village houses in DVAs;

(c) HAD has implemented various measures to ensure that timely actions would be taken on ineligible rates-exempted houses outside DVAs. Such measures include:

- the provision of information by RVD and the Land Registry to HAD on rental records, change of ownership/rates payers of rates exempted tenements;

- HAD randomly selects 10 exempted cases per district (i.e. 90 cases in total) every six months for LandsD to conduct field inspection regarding the existence of UBWs; and
HAD provides a list of all rates exempted houses to LandsD every four months for matching check against the records maintained by the eight New Territories District Lands Offices ("NTDLOs") for houses which have been detected to have UBWs during their routine work;

(d) LandsD has followed up with RVD to explore extending the notification arrangement to cover unauthorized structures on agricultural land to which LandsD has issued warning letters. As agreed between the two departments, NTDLOs would copy warning letters issued by them in respect of these unauthorized structures to RVD in parallel, so that RVD can revoke the rates exemption for the agricultural land involved; and

(e) LandsD has reminded all NTDLOs in writing on 21 April 2016 of the following:

- the result of the field inspections and matching checks should be provided to HAD in a timely manner;
- all matched cases should be reported to HAD as and when UBW was detected, without waiting for the registration of the warning letter in the Land Registry; and
- when reporting to HAD, sufficient information of the matched cases should be provided, including the date of detection of UBW and the information of the properties on which UBW was erected/detected;

- urges FSTB to:

(a) strengthen the coordinating efforts among RVD, BD, HAD and LandsD for sharing of information for the purposes of rates and government rent assessment; and

(b) give consideration to using big data technology by the Administration to capture information on UBWs to facilitate the sharing of information among relevant departments for the purposes of rates and government rent assessment;
- urges BD to:

  (a) take measures to improve the sharing of information with RVD on UBWs and subdivided properties required for rates assessment purposes, including details of those UBWs without removal orders issued, so that RVD could take timely actions to reassess the rateable values of properties; and

  (b) take measures to improve the sharing of information with HAD on village houses with UBWs detected outside DVAs, so that HAD could take timely actions on ineligible rates-exempted cases;

- urges HAD to take measures to step up the field inspections of rates-exempted village houses outside DVAs and obtain information from BD on village houses with UBWs detected outside DVAs, with a view to taking timely actions on ineligible rates-exempted cases; and

- urges LandsD to take measures to ensure the completion of document checks and field inspections of rates-exempted village houses outside DVAs requested by HAD in a timely manner.

### Specific comments

57. The Committee:

**General Revaluations**

- expresses concern that:

  (a) of some 307 700 Form R1As issued to collect rental information for each annual GR from 2010-2011 to 2015-2016, about 56 400 (18%) ratepayers failed to return Form R1As, and the number of ratepayers who had failed to return Form R1As for three years within this period consecutively increased by 22% from 6 100 to 7 417;

  (b) for the rental verification exercises conducted by RVD for each annual GR from 2010-2011 to 2015-2016, on average 67 (28%)
of some 240 cases selected for verification each year were found to have provided incorrect rental information in Form R1As, suggesting that the accuracy of rateable values generated in GRs could be undermined by inaccurate rental information furnished in Form R1As;

(c) RVD only selected ratepayers of multiple properties for conducting the rental verification exercises, which might not provide a complete picture of the accuracy of rental information obtained in Form R1As;

(d) for the GR of 2013-2014, RVD issued 3,189 Form R1As to all ratepayers in the 116 buildings which were found by BD to have 800 subdivided properties. However, of 2,244 Form R1As received, only 44 reported rental and subdivided unit information, suggesting that ratepayers might not be forthcoming in disclosing information on their subdivided properties; and

(e) RVD also obtains rental information from stamped tenancy agreements, and for each GR from 2010-2011 to 2015-2016, the number of stamped tenancy agreements copied by RVD increased from 18,099 to 26,187 (45% increase). This arrangement was not conducive to effective green management;

notes that Commissioner of Rating and Valuation has generally agreed with Audit's recommendations in paragraph 2.16 of the Director of Audit's Report ("Audit Report");

Interim valuations

expresses grave concern that the notification arrangements of UBWs established by RVD and BD since 2001-2002 have not been properly implemented to ensure the timely reassessment of properties with assessable UBWs to prevent loss of revenue as evidenced by the following:

(a) subsequent to the 2000-2001 policy decision, RVD has not taken actions on un-assessed illegal rooftop structures (since 2002) and other types of assessable UBWs (since 2005) with removal orders issued by BD, on the assumption that their existence would be transient. The 2002 departmental instruction of RVD
had not reminded RVD staff to check whether the un-assessed illegal rooftop structures were new or re-erected before deciding not to take actions on these cases. Furthermore, there was no documentary evidence to indicate that before issuing the 2005 departmental instruction, RVD had ascertained from BD whether UBWs with removal orders issued could be removed shortly. RVD's presumption that after the issue of removal orders, the illegal rooftop structures/UBWs would be demolished soon turned out to be not always valid. Of 54,637 assessable UBWs cases with removal orders issued from 2001 to 2015, 16,304 (30%) had not been complied with as at 31 December 2015, with 10,192 having remained outstanding for two years or more;

(b) there was no established arrangement for BD to notify RVD of assessable UBWs cases without removal orders issued, and the number of such cases totalled 59,032 from 2001 to 2015. Given the 24-month time-bar in recovering rates, there is a risk of loss of rates revenue if the rateable values of properties with assessable UBWs are not reassessed in a timely manner. Based on RVD's rating assessment records of 312 subdivided properties, the rateable values of properties with assessable subdivided units could increase by 5% to 217% (averaging 58%) upon reassessments; and

(c) BD only instructed its staff to provide to RVD hardcopy of the removal orders for illegal rooftop structures and advertising signs but not for other types of assessable UBWs. Audit's test check of 85 selected removal orders revealed that only 7 (8%) were copied to RVD;

expresses concern that:

(a) RVD has not conducted any survey to identify un-assessed advertising signs since the last one in 2011. Of 100 selected advertising signs surveyed by Audit, 41 (41%) had not been assessed to rates; and

18 Similar to the 2002 version, the 2005 departmental instruction covering both illegal rooftop structures and other types of assessable UBWs also stipulated that RVD staff should not take any further action on un-assessed illegal rooftop structures/UBWs subjected to BD's removal orders.
of 30 693 new interim valuations completed by RVD from April 2014 to September 2015, the assessment of 46 of them was not completed within the 24-month time-bar, resulting in a loss of revenue (estimated to be $1 million before taking into account rates concessions given to ratepayers over the years). For 32 of the 46 interim valuations, the relevant documents required for initiating interim valuations were received by RVD, on average, 104 months after their effective dates of interim valuations;

- notes that:

(a) Commissioner of Rating and Valuation has generally agreed with Audit's recommendations in paragraph 3.40 of the Audit Report; and

(b) Director of Buildings has agreed to consider the feasibility of taking forward Audit's recommendations involving the sharing of information on UBWs with RVD;

Rates exemption for rural properties

- expresses grave concern that:

(a) RVD has not put in place compliance checking of rates-exempted village houses in DVAs to ensure that they meet the prescribed eligibility criteria;

(b) Audit's sample check of RVD records revealed that for government rent purposes, RVD had assessed 18 village houses within DVAs as four-storey or five-storey buildings from 1997 to 2009 but it had not taken actions to cancel their rates exemption for not complying with the prescribed three-storey criterion. Given the 24-month time-bar for recovering rates, rates for some 4 to 16 years had become irrecoverable for these 18 houses;

(c) HAD has set the effective date of revocation of rates exemption of village houses outside DVAs based on the date of notification by DLOs instead of the date of detection of UBWs by DLOs.
Audit's sample check revealed that in two rates exemption revocation cases, the delay in notifying HAD had resulted in rates revenue loss of three-and-a-half and eight years respectively;

(d) while the number of exemption cases outside DVAs had increased from 1 000 in 1998 to 19 000 in 2015, the number of cases selected for site inspections had remained at 180 a year. Audit's scrutiny of the field inspection results of 120 rates-exempted village houses outside DVAs revealed that 48 (40%) of them had UBWs, indicating a high incidence of ineligible cases; and

(e) while RVD needs to identify those agricultural land and buildings which have become ineligible for rates exemption due to change of use, it has not established with LandsD notification arrangements for this purpose. Audit's test check of three cases of unauthorized structures on agricultural land to which LandsD had issued warning letters revealed that RVD had made interim valuation in one case while the other two cases were still exempted from assessment to rates;

- notes that:

(a) Commissioner of Rating and Valuation has generally agreed with Audit's recommendations in paragraph 4.22 of the Audit Report;

(b) Director of Home Affairs has agreed with Audit's recommendations in paragraph 4.23 of the Audit Report; and

(c) Director of Lands will take appropriate actions to follow up on Audit's recommendations in paragraph 4.24 of the Audit Report;

Collection of rates and government rent

- expresses concern that for 10 of the 14 bona vacantia cases as at 30 September 2015, RVD took 7.5 years or more to refer them to LandsD for taking possession of the defaulting companies' properties; and
notes that Commissioner of Rating and Valuation has generally agreed with Audit's recommendations in paragraph 5.8 of the Audit Report.

Follow-up action

58. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by the Committee and Audit.
The Audit Commission ("Audit") conducted a review of the Agriculture, Fisheries and Conservation Department's ("AFCD") efforts in the provision and management of public fresh food wholesale markets.\(^1\)

2. Fresh food wholesale markets are an integral part of the supply chain for distributing five types of fresh food, i.e. vegetables, fruits, eggs, live and fresh fishes and live poultry. As at December 2015, there were 12 public fresh food wholesale markets, comprising four government fresh food wholesale markets operated by AFCD, seven wholesale fish markets operated by the Fish Marketing Organization ("FMO") and one wholesale vegetable market operated by the Vegetable Marketing Organization ("VMO").\(^2\) Also, there were three privately operated fresh food wholesale markets including the Yau Ma Tei Fruit Market. In the past 10 years, fresh food distributed through the public wholesale markets had decreased both in quantum and market share. In 2014-2015, total throughput of the 12 public fresh food wholesale markets was 666 000 tonnes, which was down 14% from 776 000 tonnes in 2005-2006. On the other hand, as a result of the increase in total local consumption of the five types of fresh food from 1 339 000 tonnes in 2005-2006 to 1 802 000 tonnes in 2014-2015 (an increase of 35%), the percentage of fresh food supplied through the 12 public markets had decreased from 58% in 2005-2006 to 37% in 2014-2015.

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

- aggregate throughput of the four AFCD markets decreased by 3% during 2005-2006 to 2014-2015. Moreover, some trade offices and ancillary facilities at the four markets were unutilized. To improve utilization of the markets, AFCD had allocated 26 (50%) trade offices

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\(^1\) Audit conducted a review of "The provision of government wholesale food markets" in 1996 (Chapter 6 of the Director of Audit's Report ("Audit Report") No. 27), a review of "Wholesale marketing of marine fish" in 2000 (Chapter 1 of Audit Report No. 35) and a review of "Management of government fresh food wholesale markets" in 2007 (Chapter 4 of Audit Report No. 48). The Public Accounts Committee considered the 1996 and 2007 Reports, and expressed serious concern that, among others, there was little progress in the reprovisioning of the Yau Ma Tei Fruit Market.

\(^2\) FMO and VMO are self-financing non-profit-making organizations established under the Marine Fish (Marketing) Ordinance (Cap. 291) and the Agricultural Products (Marketing) Ordinance (Cap. 277) respectively to promote the development of the agriculture and fisheries industries and provide facilities and services for the orderly marketing of fresh marine fishes and fresh vegetables. Both organizations are administered by the Director of Marketing, who is also the Director of Agriculture, Fisheries and Conservation.
and 9 (28%) ancillary facilities for use by government departments. These facilities were used by the departments for storage only, instead of letting to traders for fresh food wholesaling activities;

- the Yau Ma Tei Fruit Market, operated privately since 1913, has become outdated, causing traffic and environmental nuisances in the vicinity. In accordance with the Executive Council's decision of 1969, the Administration should reprovision the fruit market to a government-built wholesale market. In 2007, the Committee expressed serious concern and strongly urged the Administration to provide a definite relocation timetable. As at March 2016, after a lapse of some 47 years since the 1969 Executive Council decision, the fruit market had yet to be reprovisioned. Records indicated that, during 2007 to 2013, a total of 1533 complaints in relation to the fruit market were lodged with various government departments;

- in 1994, the Planning Department commented that the continued operation of the Cheung Sha Wan Vegetable Wholesale Market at the Cheung Sha Wan sites would be a misuse of valuable land. In 1998, the relevant areas were zoned for residential use, with the intention of using the land for public housing developments. While the Planning Department had proposed different relocation sites for the vegetable market, AFCD did not consider the sites suitable and had no plan of relocating the vegetable market. In 2011, a review conducted by the Food and Health Bureau in consultation with AFCD concluded that relocation of the vegetable market would be planned to provide land supply for residential developments. However, as at March 2016, there was little progress in the reprovisioning of the vegetable market;

- during 2005-2006 to 2014-2015, the Cheung Sha Wan Temporary Wholesale Poultry Market had a 76% decrease in throughput. As at December 2015, the poultry market had 48 (56%) vacant stalls, with vacancy periods over five years. The Administration has commissioned a consultancy study on the way forward for the live poultry trade in Hong Kong, and the proposed relocation of the poultry market to Sheung Shui has been put on hold; and

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3 To address the risk of outbreak of avian influenza, the Administration had launched schemes to help live poultry traders voluntarily end their business, resulting in diminution of the live poultry trade.
during 2005-2006 to 2014-2015, the fresh marine fishes throughput of the seven FMO markets decreased by 20%, and the local vegetables throughput of VMO's Cheung Sha Wan Wholesale Vegetable Market decreased by 59%. To sustain their operation, FMO has let extensive market areas to traders for live marine fish trading and car parking, and VMO has sold predominantly imported vegetables. There is a need to review the use of lands by FMO and VMO for purposes other than originally intended to ensure that it represents an optimal use of public resources against competing demands.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the utilization of public fresh food wholesale markets, management of AFCD markets, follow-up actions taken on non-compliance cases in accordance with the tenancy terms, progress of the reprovisioning of Yau Ma Tei Fruit Market and Cheung Sha Wan Wholesale Vegetable Market and reviewing the roles and functions of fresh food wholesale markets in Hong Kong. The consolidated replies from Secretary for Food and Health and Director of Agriculture, Fisheries and Conservation are in Appendix 11.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.
The Audit Commission ("Audit") conducted a review to examine retrofitting of lifts or ramps for footbridges, elevated walkways and subways (hereinafter referred to as grade-separated walkways - "GS walkways") through the implementation of the 2001 Retrofitting Initiative managed by the Highways Department ("HyD") and the 2012 Expanded Programme carried out by the Civil Engineering and Development Department ("CEDD").

2. Under the Disability Discrimination Ordinance (Cap. 487) effective from 1996, it is unlawful for a person to discriminate against another person with a disability ("PWD") by refusing to allow that person access to, or the use of, any premises or facilities that the public is entitled, except where any alteration to the premises to provide such access or provision of such facilities would impose unjustifiable hardship on the provider of such access or facilities. In September 2000, the then Transport Bureau (now the Transport and Housing Bureau) stipulated in a circular entitled "Provision of covers or ramps and escalators to grade separated pedestrian facilities" that access for PWDs had to be provided for all GS walkways either by the provision of ramps or lifts. In December 2001, the then Transport Bureau informed the Legislative Council ("LegCo") that the Administration would retrofit ramps or lifts for existing public footbridges according to an order of priorities (2001 Retrofitting Initiative). In 2011, the Administration informed LegCo that a total of 295 GS walkways in the territory were not provided with lifts, ramps or alternative at-grade crossings (hereinafter referred to as barrier-free access facilities) and that the retrofitting works for these GS walkways would be completed by 2017-2018. In the same year, HyD commenced a programme for carrying out investigation and retrofitting works for the remaining 201 GS walkways1 not being provided with barrier-free access facilities (hereinafter referred to as 2011 Retrofitting Programme, which formed part of the 2001 Retrofitting Initiative).

3. In August 2012, in order to bring further convenience to the elderly, PWDs and the general public in using GS walkways, the Administration promulgated a new policy on "universal accessibility", stating that, as long as site conditions permitted, it would consider installing lifts for GS walkways even when standard ramps had already been installed (2012 Expanded Programme). Subsequently, in response to the Administration's invitation, members of the public submitted proposals for 253 GS walkways for lift retrofitting works. Each of the 18 District Councils ("DCs") were invited to select three GS walkways from the list of public proposed walkways for priority lift retrofitting works, which were to be carried out by CEDD.

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1 HyD had taken actions from 2001 to 2010 on investigation and retrofitting works for 94 walkways.
4. The Committee noted the following findings from the Director of Audit's Report:

- in April 2011, the Administration informed LegCo that 295 GS walkways were not provided with barrier-free access facilities. However, according to HyD's records, in fact 328 GS walkways were not provided with barrier-free access facilities. The number of walkways not provided with barrier-free access facilities were understated by 33;

- the Administration informed LegCo that the retrofitting works for barrier-free access facilities for GS walkways under the 2011 Retrofitting Programme were scheduled for completion by 2017-2018. However, as of December 2015, of the 184 GS walkways found to be feasible for retrofitting works -
  (a) only 60 (33%) had been completed;
  (b) 94 (51%) were in progress;
  (c) 17 (9%) were under detailed design and public consultation; and
  (d) 13 (7%) had not commenced;

- audit examination revealed that there was significant time and cost overrun in implementing retrofitting works for many walkways, in some cases due to utility diversion problems found after the award of works contracts;

- from 2001 to 2013, HyD's feasibility studies under the 2001 Retrofitting Initiative found that 95 walkways were not feasible for carrying out lift/ramp retrofitting works mainly due to site constraints or existence of underground utilities. However, CEDD's feasibility studies under the 2012 Expanded Programme found that it was technically feasible to carry out retrofitting works by adopting alternative solutions. Audit noted that HyD had not issued guidelines on determining whether a walkway is feasible for carrying out lift/ramp retrofitting works;

- while the 18 DCs were each invited to nominate three GS walkways from a list of public proposed walkways for lift retrofitting works under the 2012 Expanded Programme, the list provided to four DCs
presented few choices. In addition, Audit noted that the peak-hour pedestrian flow of some nominated walkways were relatively low; and

- HyD's information system could not generate management reports on the locations and availability of ramps or lifts of walkways. Also, there were 11 GS walkways constructed from 1999 to 2005 after the effective date of the Disability Discrimination Ordinance in 1996 were not provided with barrier-free access facilities at the time of the walkway construction.

5. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the occurrence of significant time and cost overrun in implementing retrofitting works items, cases of works delay due to interfacing problems with other works projects in the same location or utility diversion problem, reasons for low pedestrian flow for some of the walkways nominated by DCs and details regarding some retrofitting works originally found to be infeasible by HyD but later found to be feasible by CEDD. The consolidated replies from HyD and CEDD are in Appendix 12.

6. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.
The Audit Commission ("Audit") conducted a review to examine the Immigration Department's ("ImmD") work on the administration of the eight Admission Schemes to attract talent, investors and workers to work/stay in Hong Kong.

2. The Administration has introduced various Admission Schemes to attract talent, professionals, non-local graduates and investors from other places to work or invest in Hong Kong. To address the problems of shortage of local live-in domestic helpers and shortage of labours in some industries, the Administration has also established schemes to import foreign domestic helpers ("FDHs") and workers in relevant industries. The eight Admission Schemes are as follows:

- Admission Schemes for talent, professionals and non-local graduates: the General Employment Policy ("GEP") Employment Stream, the Admission Scheme for Mainland Talents and Professionals ("ASMTP"), the Quality Migrant Admission Scheme and the Immigration Arrangements for Non-local Graduates;

- Admission Schemes for investors: GEP Investment Stream and the Capital Investment Entrant Scheme; and

- Admission Schemes for importing FDHs and workers: the Admission Scheme for FDHs and the Supplementary Labour Scheme.

3. ImmD is responsible for processing applications under the eight Admission Schemes and issuing visas or entry permits to successful applicants. Upon entry to Hong Kong, a person must comply with the limit of stay and such conditions of stay imposed by ImmD under the Immigration Ordinance (Cap. 115), and may apply to ImmD for permission of extension of stay. Except for the Admission Schemes for FDHs and the Supplementary Labour Scheme, a person who has been admitted under the other six Admission Schemes and is lawfully and continuously an ordinary resident in Hong Kong for seven years may apply for permanent residence.

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

- to meet the eligibility criteria for GEP Employment Stream and ASMTP, ImmD should consider availability of local employees and market level of remuneration in processing applications under these
schemes. Sponsoring companies (i.e. employers) under ASMTP were required to provide a declaration proof of their efforts in recruiting local employees, but there was no similar requirement under GEP Employment Stream. According to ImmD, salary statistics reports prepared by the Census and Statistics Department and salary survey reports published by employment websites would be used for considering applicants' monthly remunerations, but such practices were not laid down in its guidelines. In some cases, the applicants' remunerations were below the average/median salaries published by the information sources mentioned by ImmD, and the basis of accepting the remunerations as commensurate with the market level was not documented by ImmD's case officers;

- from January 2014 to September 2015, 193 (58%) of the 330 approved applications of GEP Investment Stream had taken more than 90 days to process. Audit's sample check of 15 such applications further revealed that on average, the case officers took 73 days in three cases to make further information requests and 87 days in five cases to grant approval after receipt of all supporting documents;

- in response to the public concern that individual FDHs deliberately under-performed to cause their employers to terminate the contracts pre-maturely, ImmD has taken measures to strengthen control over FDH entry-visa applications to curb possible abuses. Audit's examination of 30 selected suspected job-hopper cases (i.e. FDHs who had two or more pre-mature termination records in 12 months preceding their new visa applications) revealed that seven cases were approved although the case officers had not contacted all their ex-employers who made adverse comments on the applicants' performance. Moreover, there were no laid-down procedures to guide case officers in processing new applications from suspected job-hoppers;

- since January 2000, the Standard Employment Contract has prohibited FDHs from performing all sorts of driving duties unless an employer could provide full justifications that there were genuine needs for the FDHs to perform driving duties. From 2000 to 2015, the total number of successful applications for FDHs performing driving duties had increased by 125% from 903 to 2032. Audit examination of ten approved applications revealed that the justifications provided in the application forms were travelling needs for performing commonly required domestic duties, but the reason why such travelling needs
could only be met by an FDH performing driving duties was not provided in these justifications; and

- statistics on entrants obtaining right of abode and their duration of stay are key indicators of the entrants' willingness to work/stay in Hong Kong. However, such statistics were not periodically compiled by ImmD because they could not be generated from the computer system readily. Such information could be useful to indicate whether the population policy objective to attract more outside talent to work and settle in Hong Kong as recommended by the Steering Committee on Population Policy has been achieved.

5. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding guidelines on the assessment of local availability and remuneration in processing GEP Employment Stream and ASMTP applications, measures to improve the efficiency of processing applications, follow-up actions on suspected FDH job-hoppers and ImmD's plan to improve computer records of the Admission Schemes. The replies from Director of Immigration are in Appendix 13.

6. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.
The Audit Commission ("Audit") conducted a review of the Hong Kong Academy for Performing Arts ("HKAPA").

2. HKAPA was established in 1984 by The Hong Kong Academy for Performing Arts Ordinance (Cap. 1135) to foster and provide training, education and research in the performing arts and related technical arts. HKAPA offers undergraduate degree programmes, sub-degree programmes and junior programmes with government funding. It also offers self-financing Master's degree programmes. The Home Affairs Bureau ("HAB") oversees the funding and operations of HKAPA. In the financial year 2014-2015 (ended on 30 June 2015), government subvention to HKAPA amounted to $309 million, accounting for 66% of HKAPA's total income of $467 million. With a total expenditure of $437 million, HKAPA recorded a surplus of $30 million in 2014-2015.

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

   - HKAPA sets student enrolment targets every year. For undergraduate degree and sub-degree programmes, there were enrolment shortfalls in the academic years 2012-2013 to 2015-2016, increasing from 14 places (2%) in 2012-2013 to 40 places (5%) in 2015-2016. In 2015-2016, local students only filled 85% of the enrolment target of 825. The shortfall was partially made up by non-local students;

   - for undergraduate degree programmes, HKAPA has adopted the policies of aligning the tuition fee with that of University Grants Committee-funded institutions (set for some years at $42,100 a year), and charging non-local students the same tuition fee. By contrast, University Grants Committee-funded institutions are required to charge non-local students tuition fee at a level that was at least sufficient to recover all additional direct costs. In 2015-2016, their fees ranged from $110,000 to $146,000;

   - there had been an increasing trend in HKAPA's student unit cost, which increased by 80% from $171,000 in 2005-2006 to $308,000 in 2014-2015;

   - in migrating to a four-year undergraduate degree structure, some sub-degree programmes were phased out, resulting in a 47% drop in the total number of HKAPA graduates from 418 in 2011-2012 to 222
in 2014-2015, reducing the supply of HKAPA graduates to the performing arts sector;

- the administrative arrangements entered between HAB and HKAPA in 2001 have not been updated to incorporate some important reporting requirements specified in subvention guidelines issued by the Administration after 2001, such as the requirement to submit an audited annual financial report on subvented programmes with an auditor's opinion on the compliance with all government requirements and subvention guidelines;

- audit analysis based on available records indicated that the average utilization rates of HKAPA's teaching venues in 2014-2015 were (a) 32% to 79% for those at Wanchai Campus; (b) 3% to 28% for those at the Bethanie Campus; and (c) 12% to 35% for those at leased premises at commercial buildings. The utilization rates recorded for some teaching venues were low, although according to HKAPA records there have been repeated comments of acute shortage in teaching space;

- the Finance Committee of the Legislative Council ("LegCo") approved a funding of $444.8 million for HKAPA to carry out the Wanchai Campus expansion project. In March 2014, HAB made a proposal to the Financial Services and the Treasury Bureau ("FSTB") to seek supplementary provision of $150 million to meet the increased expenditure not included in the original project scope. FSTB commented that it was highly undesirable for HKAPA to initiate changes that would affect approved project estimate after funding approval, and asked HAB and HKAPA to critically review the project scope and works specifications to contain the project cost within approved project estimate. In June 2014, HAB and HKAPA worked out a cost containment proposal to contain the project cost within approved project estimate by excluding the construction of a one-storey lightweight structure on the roof of an existing block. However, HAB and HKAPA had not reported such change in project scope to LegCo; and

- the Wanchai Campus expansion project, originally scheduled for completion in December 2015, is expected to be completed in December 2017, two years behind schedule.
4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding HKAPA's policy on the admission of non-local students, tuition fee for non-local students, the increase in student unit cost, governance and monitoring of HKAPA by the Administration, utilization of venues and the implementation of the Wanchai Campus expansion project. The consolidated replies from Secretary for Home Affairs and Director of HKAPA are in Appendix 14.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.
The Audit Commission ("Audit") conducted a review of the work of the Electrical and Mechanical Services Department ("EMSD") in monitoring the safe operation of lifts and escalators ("L&Es").

2. The Lifts and Escalators Ordinance (Cap. 618) ("L&E Ordinance"), effective from 17 December 2012, regulates the installation, maintenance and operation of L&Es, and EMSD is responsible for the administration and enforcement of L&E Ordinance. L&E Ordinance stipulates that a Registered Contractor ("RC") and a Registered Engineer ("RE") should be appointed respectively for: (a) installation and maintenance of L&E; and (b) examination and certification of the safe working condition of an L&E. As of December 2015, 72,486 L&Es (63,561 lifts and 8,925 escalators) were regulated under the L&E Ordinance in Hong Kong, while 12,086 (20%) lifts and 331 (4%) escalators aged 35 years or more. In 2015, there were 2,029 L&E reportable incidents involving 2,237 injuries.

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

- Audit sample checked 70 of 2,974 RC change-over cases from January 2014 to September 2015 and discovered that as of December 2015, three RCs had not submitted the change-over examination reports 548 to 729 days after taking over the L&E maintenance work, and 15 RCs submitted their reports 32 to 110 days after taking over the work;

- from January 2014 to September 2015, out of 137 L&Es involved changes of RCs where the incoming RCs assumed maintenance service more than one month after termination of service of the outgoing RCs, EMSD had issued prohibition orders on 36 L&Es 34 to 298 days after maintenance service termination and had not issued prohibition orders on 21 L&Es as of December 2015;

- from January 2013 to September 2015, EMSD had issued 32 warning letters to 16 RCs for non-compliance with L&E Ordinance and the EMSD Code of Practice. Three RCs had each received three or more warning letters within 12 months. Also, notwithstanding that warning letters had been issued to two RCs for non-compliance with significant EMSD requirements, no performance monitoring point was accorded to them because the non-compliance issues were not covered under the Performance Assessment Scheme;
up to 31 December 2015, the Disciplinary Action Review Panel set up by EMSD had not reviewed the need for disciplinary hearings for two RCs who had been convicted of offences under the L&E Ordinance in December 2013 and July 2015 respectively, and for an RC who had received four warning letters from June to September 2015;

- EMSD had not issued guidelines on the maximum number of L&Es to be examined and certified by an RE on a single day. From January 2014 to September 2015, 62 REs had conducted examination and certification for 7 to 13 lifts on a single day on a total of 146 occasions, but EMSD only requested for explanations from four REs;

- from July 2014 to June 2015, 185 use permits of L&Es were renewed 1 to 279 days later than their expiry dates, but EMSD had only issued prohibition orders to 113 L&Es up to 31 December 2015, and three orders had been issued one to three days after the permit expiry dates. Audit sample checked 50 prohibition orders issued from January 2014 to June 2015 and found out that none of them were served before order effective dates;

- EMSD could not provide the number and details of non-reportable L&E incidents that had come to its notice in 2015. Of the investigations conducted by EMSD on 23 non-reportable incidents (e.g. fire occurrence and failure of a cable connector of a lift) in 2015, Audit considered that EMSD should keep in view whether some non-reportable incidents might pose safety risk and might warrant classifying them as reportable incidents; and

- as L&E information was kept in different computerized systems, the numbers of EMSD inspections of L&Es conducted in 2014 as listed in 2015-2016 Controlling Officer's Report were respectively 7% and 17% greater than those reflected in the L&E Ordinance System developed by EMSD.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the measures to improve the monitoring of RCs and REs, the site inspections and other regulatory actions, the scope of reportable incidents, the guidelines for the issuance of prohibition orders and the management of EMSD's information systems for L&Es. The replies from Director of Electrical and Mechanical Services are in Appendix 15.
5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.
The Audit Commission ("Audit") conducted a review of the management of the Dedicated Fund on Branding, Upgrading and Domestic Sales ("BUD Fund"), including the management of funded projects.

2. BUD Fund was established in June 2012 with a non-recurrent commitment of $1,000 million to assist enterprises in developing brands, upgrading and restructuring their operations, and promoting domestic sales in the Mainland. It comprises the Enterprise Support Programme ("ESP") and the Organization Support Programme ("OSP"), which provides funding support to individual Hong Kong non-listed enterprises and non-profit-distributing organizations respectively in undertaking projects. The Commerce and Economic Development Bureau ("CEDB") and the Trade and Industry Department are responsible for administering BUD Fund. CEDB has engaged the Hong Kong Productivity Council ("HKPC") as the ESP Secretariat and partner to implement ESP. The OSP Secretariat is under the Industries Support Division of the Trade and Industry Department.

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

   - as at October 2015, the approved ESP and OSP projects (349 and 45 respectively) and the amount of approved funding for ESP and OSP ($157 million and $147 million respectively) were lower than estimated;¹

   - from June 2012 to June 2015, the applications received for both ESP and OSP showed a downward trend, in particular that the applications withdrawn before assessment stood at 21.1% and 16.3% respectively, and the low overall success rates of ESP and OSP applications (33% and 38% respectively) highlighted room for improvement;

   - more projects might become unsuccessful as time progress. As at October 2015, 45 (13%) of 349 approved ESP projects were terminated before completion;

   - the number of promotion events on ESP organized by HKPC showed a decreasing trend since June 2012;

¹ According to the paper submitted to the Finance Committee of the Legislative Council in May 2012, the Government allocated $440 million for OSP and about $500 million for ESP, and estimated that about 1,000 enterprises could directly benefit from ESP and around 90 projects could be undertaken under OSP.
when the Financial Services and the Treasury Bureau vetted the paper submitted to the Finance Committee of the Legislative Council for the BUD Fund in early 2012, it expressed concerns on the selection of HKPC as the implementation partner and advised CEDB to consider if the arrangement was a procurement of services subject to the Stores and Procurement Regulations and tendering procedures;

- the estimated administration cost of ESP was $77 million (15% of the $500 million approved funding). However, up to October 2015, the cost for administering ESP had amounted to $55.3 million, representing about 35% of the approved funding of $157 million approved to-date. The implementation fee charged by HKPC was calculated at the highest staff cost rates. Notwithstanding that the numbers of ESP applications and approved projects were low and decreasing, the actual number of full-time staff of the ESP Secretariat remained at about 15 to 16, and over 50% of them were at consultant grade. Audit noted that there was no documentation indicating whether CEDB had discussed with HKPC on the feasibility of using lower charging rates and why lower rates were not applicable;

- as at October 2015, HKPC was engaged as implementation agent for 22 of 45 approved OSP projects, and the approved consultancy fees for these 22 projects amounted to $19.8 million;

- of the 10 completed OSP projects selected by Audit, six had engaged implementation agents, but the consultancy fees represented 26% to 63% of their respective approved project funding, while three of the six projects did not have detailed breakdown of the proposed consultancy fees. Also, two of the 10 selected projects did not keep the recruitment records for seven years as stipulated in the project agreements and did not widely advertise the job vacancy(ies). One of the two projects even charged non-allowable costs to the project account, which made the OSP Secretariat consider that the management of this project was below standard;

- apart from requiring a letter from the grantees listing out the nature and the amount of in-kind contribution, the OSP Secretariat did not require the grantees to produce documents to support the valuation of in-kind contribution;

- the Programme Management Committee chaired by the Permanent Secretary for Commerce and Economic Development (Commerce,
Industry and Tourism) met once every three months to consider the applications for ESP. ESP applicants needed to wait, in addition to the some three to six months taken for project approval, one to seven months for the signing of the agreement for project commencement, depending on whether conditions were attached to the projects; and

- of the 20 completed ESP projects selected by Audit, 11 progress reports were submitted late to the ESP Secretariat. According to the ESP Secretariat, most of the grantees did not have enough manpower and experience to prepare the progress reports and final reports. The ESP Secretariat needed to take measures to facilitate the grantees in the submission of reports and to streamline the process.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the measures to improve the operation, management, promotion and effectiveness of OSP and ESP. The replies from Secretary for Financial Services and the Treasury, and the consolidated replies from Secretary for Commerce and Economic Development, Acting Director-General of Trade and Industry and Executive Director of HKPC are in Appendices 16 and 17 respectively.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.
The Audit Commission ("Audit") conducted reviews of the Government's procurement and inventory management of information and communications technology ("ICT") products and services, and the provision of mobile applications ("apps"). Audit selected the Office of the Government Chief Information Officer ("OGCIO"), the Customs and Excise Department ("C&ED"), the Environmental Protection Department ("EPD") and the Highways Department ("HyD") for the former review, and another four departments (i.e. the Water Supplies Department, the Leisure and Cultural Services Department, the Department of Health and the Fire Services Department) for the latter review.

2. OGCIO is responsible for overseeing the use of ICT in the Government. The ICT inventories held by government bureaux and departments ("B/Ds") are of significant value. From 2005-2006 to 2014-2015, the Government's ICT expenditure increased by 48.9% from $2,805 million to $4,176 million. The first government app was launched in 2010 and government apps had been developed at a fast rate since then. As at 31 August 2015, 127 government apps were launched and the cumulative development cost was some $38 million.

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

- OGCIO launched the e-Procurement Programme, with a total of $80.1 million development and implementation costs up to 31 October 2015, for all B/Ds in December 2013, but only 10 of the some 70 B/Ds had implemented the full function of e-Procurement up to late December 2015;

- instead of consolidating purchases to achieve better economies of scale, C&ED and EPD divided procurement of ICT products at $2.1 million and $4.6 million respectively into two and six separate purchases;

- in order to fulfil the procurement requirements stipulated by OGCIO and the Government Logistics Department (e.g. the quoted values of trade-in items should not be lower than the approved minimum values), HyD paid more for the goods it procured;

- there were large discrepancies between the ICT expenditure published on OGCIO's website and the actual ICT expenditure of C&ED, EPD and HyD;
- only OGCIO had planned and replaced its obsolete computers and related software on a continual basis. C&ED, EPD and HyD replaced their old computers and software upon receiving reminders from OGCIO and did not have in place a disposal strategy to facilitate disposal of obsolete inventories in a timely and systematic manner;

- up to 30 November 2015, 107 (11%) of the 1,009 selected ICT inventory items in OGCIO, C&ED, HyD and EPD (cost amounted to $450,886) could not be located, 32 (30%) of the 107 missing items were embedded with data storage devices. Information Technology Management Units of C&ED, EPD and HyD had also failed to properly keep their inventory records, 1,523 (83%) of 1,840 ICT inventory items were not kept by the Information Technology Management Units as per the inventory records;

- HyD was the only department out of the four departments that used a manual inventory control system, while C&ED still largely relied on its manual system for inventory control although it had a computerized inventory system, and there were large discrepancies between C&ED's computerized and manual inventory control system;

- up to 30 September 2015, EPD had made 65 donations involving 3,636 items of ICT products (with a total cost of $10.7 million) to one non-governmental organization, among which 1,366 unserviceable ICT products should have been sold to the Government Logistics Department disposal term contractors in accordance with the Stores and Procurement Regulations;

- only OGCIO and an operational unit of HyD could provide evidence that sample checks of erased storage media had been conducted;

- the mobile device features of some government apps were limited and were virtually duplications of the websites of B/Ds; and

- as at 31 August 2015, 23 of the 31 government apps developed for one-off events had been decommissioned. The total development cost of the decommissioned apps amounted to some $2.6 million and the number of downloads of some apps for one-off events was on the low side.
4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the implementation progress and effectiveness of e-Procurement, guidelines to facilitate B/Ds in replacing/upgrading ICT products, procurement practices of ICT products and services, measures to improve the control of ICT inventories and disposal of ICT products, as well as policies for apps development. The replies from Government Chief Information Officer, Director of Government Logistics, Director of Environmental Protection, Commissioner of Customs and Excise, Director of Highways, Director of Leisure and Cultural Services, Director of Water Supplies, Director of Fire Services and Director of Health are in Appendices 18 to 26 respectively.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.
Abraham SHEK Lai-him
(Chairman)

Paul TSE Wai-chun
(Deputy Chairman)

CHAN Hak-kan

Alan LEONG Kah-kit

WONG Yuk-man

NG Leung-sing

Kenneth LEUNG

16 June 2016
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### P.A.C. Report No. 66

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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.  

(3A) The chairman and 2 other members shall constitute a quorum of the committee.

(3B) In the event of the temporary absence of the chairman and deputy chairman, the committee may elect a chairman to act during such absence.

(3C) All matters before the committee shall be decided by a majority of the members voting. Neither the chairman nor any other member presiding shall vote, unless the votes of the other members are equally divided, in which case he shall give a casting vote.

(4) A report mentioned in subrules (1) and (2) shall be deemed to have been referred by the Council to the committee when it is laid on the Table of the Council.
(5) Unless the chairman otherwise orders, members of the press and of the public shall be admitted as spectators at meetings of the committee attended by any person invited by the committee under subrule (8).

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

(7) *(Repealed L.N. 214 of 2005)*

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

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

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

(11) Subject to these Rules of Procedure, the practice and procedure of the committee shall be determined by the committee.
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.
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<th>Witness</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prof K C CHAN</td>
<td>Secretary for Financial Services and the Treasury</td>
</tr>
<tr>
<td>Ms Elizabeth TSE Man-yee</td>
<td>Permanent Secretary for Financial Services and the Treasury (Treasury)</td>
</tr>
<tr>
<td>Mr Gary POON Wai-wing</td>
<td>Principal Assistant Secretary for Financial Services and the Treasury (Treasury) (R)</td>
</tr>
<tr>
<td>Mr TANG Ping-kwong</td>
<td>Commissioner of Rating and Valuation</td>
</tr>
<tr>
<td>Mr CHOI Lap-yiu</td>
<td>Deputy Commissioner of Rating and Valuation</td>
</tr>
<tr>
<td>Mr IP Pak-keung</td>
<td>Assistant Commissioner (Rating and Valuation) Department</td>
</tr>
<tr>
<td>Mr HUI Siu-wai</td>
<td>Director of Buildings</td>
</tr>
<tr>
<td>Mr YU Tak-cheung</td>
<td>Assistant Director/Existing Buildings (2) Buildings Department</td>
</tr>
<tr>
<td>Miss Janice TSE Siu-wa</td>
<td>Director of Home Affairs</td>
</tr>
<tr>
<td>Ms Anna CHOR Kin-lan</td>
<td>Assistant Director (1) Home Affairs Department</td>
</tr>
<tr>
<td>Ms Bernadette LINN</td>
<td>Director of Lands</td>
</tr>
<tr>
<td>Ms Doris CHOW Man-yee</td>
<td>Assistant Director (Estimate Management) Lands Department</td>
</tr>
</tbody>
</table>
Chairman,

First of all, I would like to express my gratitude to the Director of Audit for the value for money audit on the efforts in safeguarding revenue on rates and government rent, as well as the recommendations on the work of the Rating and Valuation Department (“RVD”) and other relevant departments. As stated in the Report, the Government generally agrees with the recommendations made by the Director of Audit.

2. Before responding to the Report, I would like to reiterate the following:

(1) The Government has been striving to safeguard revenue from rates and government rent, which are broad-based and stable sources of government revenue. RVD has been making relentless efforts in stepping up enforcement to guard against and combat evasion of rates and government rent. The rates arrears rate has been maintained at around 0.4% in recent years, which is far below the arrears rate in other jurisdictions charging similar taxes.

(2) The Financial Services and the Treasury Bureau (FSTB), as the policy bureau of RVD, has kept in constant view the functioning of the Department, and reviews with the Department its operation from time to time. From the bureau’s perspective, we always support RVD in delivering its statutory functions and carrying out its core business in a cost effective manner.

(3) RVD is responsible for the assessment and collection of rates under the Rating Ordinance and government rent under the Government Rent (Assessment and Collection) Ordinance. The workload arising from the annual cycles of assessment and collection should not be understated. At present, Hong Kong has about 3.17 million properties liable to rates, and 2.21 million properties liable to government rent under the Government Rent (Assessment and
Collection) Ordinance. RVD is required to update the Valuation List and the Government Rent Roll from time to time, and to conduct and issue interim valuations in the light of alterations to properties and completion of new buildings. As stated in the Audit report, in 2014-15, for example, there were 28,000 new assessments added to and 12,000 assessments deleted from the Valuation List, and 23,000 new assessments added to and 8,000 assessments deleted from the Government Rent Roll.

Moreover, RVD is required to conduct general revaluation of all properties liable to rates and government rent in Hong Kong on an annual basis. Each round of exercise would have to be completed within a period of only five months, commencing every year from October to February in the following year. In 2015-16, for rates, there are 2.43 million assessments with a total rateable value of $608.6 billion, representing a year-on-year increase of 7.9%; and for government rent, there are 1.89 million assessments with a total rateable value of $354.1 billion, representing a year-on-year increase of 8.3%. RVD has all along been making its best endeavours to cope with the ever increasing workload.

Under such circumstances, I would like to appeal to the Public Accounts Committee to take note, in the course of the hearing, of the myriad of work on RVD’s shoulders. It is therefore necessary for RVD to set its priorities and pay regard to cost-effectiveness, so as to strike a proper balance in taking forward the various recommendations in the Report.

3. The Audit report focuses on four key areas, including General Revaluations, interim valuations, rates exemption for rural properties, and collection of rates and government rent. Now, I will set out our responses from the bureau’s perspective on each of these aspects.

1. General Revaluations

4. It is a key aspect of RVD’s core business to conduct General Revaluations, as I have just mentioned. Rental information provides an important basis for the general revaluation of rateable value each and every year. RVD has all along been collecting rental information from many different sources. As pointed out in the Audit report, RVD would issue Requisition Forms for Particulars of Tenements (Form R1A) to selected properties, and require ratepayers to complete and return the forms, so that the Department can get hold of the relevant rental information. In taking forward its work, RVD has to **count on the cooperation of ratepayers**. It is worth noting that the
return rate has reached some 80% in recent years, which shows that the majority of ratepayers have complied with the requirement to return the forms. The verification exercise conducted on a sample basis on the rental information furnished in the forms also shows that the information provided is correct for 70% of the cases.

5. After completion of each General Revaluation, RVD would conduct a rental verification exercise on a sample basis, so as to ascertain whether the information furnished in the R1A Forms are accurate. RVD would conduct a statistical audit each year to ensure that the accuracy of the valuation can meet international standards. The Department would also select 240 cases and require the ratepayers concerned to supply supporting documents for their furnished rental information (such as copies of tenancy agreements and rent receipts) to monitor the accuracy of the information furnished. As a matter of fact, apart from the Requisition Forms, RVD would also collect rental information from other sources, such as the Notices of New Letting or Renewal Agreement and the stamped tenancy agreements. RVD’s annual revaluation is based on the overall rental level of properties, and the impact of inaccuracy in individual Requisition Forms on the revaluation exercise is limited.

6. In any event, RVD will, in the light of Audit’s recommendations, conduct review and explore further possible measures. It will closely monitor the situation and step up enforcement actions, with a view to enhancing the reliability of information collected from the Requisition Forms. RVD would also touch base with the Buildings Department (“BD”) to put in place a mechanism to collect information on subdivided properties, so that RVD can assess their rateable values more accurately to safeguard government revenue.

(2) Interim valuations

7. The Audit report has put forward a number of recommendations in particular on the assessment of unauthorised building works (“UBWs”). These include reviewing the departmental instruction with a view to strengthening the procedures for using information of UBWs obtained from BD for rating assessment purposes, as well as seeking BD’s assistance in extending the scope of the notification arrangements of assessable UBWs to cover those without removal orders issued, so as to carry out interim valuations more efficiently. In dealing with the rating assessments of UBWs, RVD has all along followed the established rating principles and the relevant policy objectives.

8. For UBWs with rates already assessed, RVD has been collecting rates until the removal of the UBWs concerned. Following the rating principles under common law that properties of transient nature would not be so assessed,
RVD has all along taken it that UBWs with removal orders issued would be demolished soon and can thus be regarded as properties of transient nature. However, as the Audit report points out, it may take some time for individual UBWs to be demolished. In the light of the situation, FSTB has asked RVD to put in place some form of bring up system to keep track of those existing UBWs with removal orders issued but not yet demolished such that timely interim valuations would be made within the 24-month time-bar in recovering rates, so as to better safeguard rates revenue. This would also prevent the occurrence of the unreasonable situation whereby individual unassessed UBWs could avoid being subject to rating assessment for a long period, only because the removal orders issued have not been complied with.

(3) Rates exemption for rural properties

9. For rural properties, the Rating Ordinance provides that properties in designated village areas (“DVAs”) are exempted from assessment to rates. RVD has reviewed from time to time the boundaries of DVAs, so that any part of the DVAs which no longer meets the relevant exemption criteria would be taken out from the DVAs, and the village houses within the part so removed would no longer be exempted on such basis. RVD has all along been delivering the relevant duties in a prudent manner, in order to safeguard rates revenue. Since 1992 when the relevant policy was established, RVD has conducted a total of seven exercises to amend the boundaries of DVAs.

10. As pointed out in the Audit report, a village house located within a DVA would be entitled to exemption only if it complies with certain prescribed criteria in terms of number of storeys, floor area and height. We agree that it is incumbent on RVD to inspect the status of village houses within DVAs, so as to ensure that only those in compliance with the prescribed statutory requirements are exempted from rates.

11. Since the exercise will involve inspection of some 16,000 village houses in 105 DVAs, the caseload is voluminous. It is only pragmatic for RVD to conduct inspection in a phased manner in view of competing priorities. For those houses within DVAs which have been found to be unable to meet the prescribed criteria for rates exemption and where rating assessments have been made, the Department will issue rates demands as soon as practicable. As regards other houses within DVAs, RVD will work out its work plan by the fourth quarter of 2016, with a view to issuing rates demands to non-compliant houses by phases beginning from the first quarter of 2017. RVD will also seek the assistance of BD and Lands Department (“LandsD”) to provide information on ineligible cases detected in the course of their enforcement work, with a view to expediting the whole exercise.
(4) **Collection of rates and government rent**

12. Regarding the long outstanding arrears cases with charging orders, RVD has been taking follow-up actions in an on-going manner. With a view to further facilitating LandsD in taking action on bona vacantia cases, RVD has reminded its staff to notify LandsD of such cases as soon as practicable, and to request LandsD to inform RVD in a timely manner upon taking possession of the relevant properties, so that RVD can delete the rating assessments.

**Concluding remarks**

13. Chairman and Members, may I once again thank the Audit Commission for recommending areas for improvement in RVD’s work in safeguarding revenue on rates and government rent. RVD will make strenuous efforts to follow up and strive for excellence. FSTB will monitor RVD’s follow-up actions on various recommendations, and will provide the necessary support. I myself, together with the Commissioner of Rating and Valuation and other colleagues, would be happy to respond to questions raised by the Committee.

14. Thank you, Chairman.

Ends
Dear Mr CHU,

Public Accounts Committee

Consideration of Chapter 1 of the Director of Audit’s Report No. 66
Efforts of the Rating and Valuation Department in safeguarding revenue on rates and Government rent

As requested in your letter of 10 May 2016, I append below the additional information required.

I. General Revaluations

(a) Paragraph 2.6(a) of the audit report –

1. Under section 119L in Part IV of the Landlord and Tenant (Consolidation) Ordinance (LTO), owners of domestic properties are required to submit Notices of New Letting or Renewal Agreement (Form CR109) for endorsement by the Commissioner of Rating and Valuation. The form is a source of rental data for the general revaluation and compilation of property market statistics by the Rating and Valuation Department (RVD).

2. Part IV of LTO has never been applicable to non-domestic tenancies. Hence, no submission of similar form for endorsement is required for tenancies of non-domestic properties. Nonetheless, RVD has obtained rental information of non-domestic properties from other sources. As pointed out in paragraph 2.6(b)(i) of the audit report, an RVD staff takes photocopies of some tenancy agreements at the Stamp Office, mainly the tenancy agreements of non-domestic properties (such as shops, offices and factories) to collect relevant rental data.
(b) Paragraph 2.7 of the audit report -

3. RVD conducts a rental verification exercise each year by selecting 240 properties from the Requisition Forms for Particulars of Tenements (Form R1As) received so as to allow us to review and enhance the templates of the Requisition Forms for making it clear to payers the information that they should furnish. Over the past three years, the in-order rate rose from 61% in 2013-14 to 75% in 2015-16. We will closely monitor the return of Form R1As and consider increasing the sample size if a growing trend in the number of cases with incorrect information is spotted. Moreover, for deterrent purpose, in the event of suspected false reporting and with sufficient evidence, we will take prosecution action.

(c) Paragraph 2.10 of the audit report -

4. A breakdown by property type on those cases found in the rental verification exercises to have furnished incorrect information is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Office</th>
<th>Industrial</th>
<th>Commercial (including shops)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>8</td>
<td>3</td>
<td>6</td>
<td>39</td>
<td>56</td>
</tr>
<tr>
<td>2011-12</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>34</td>
<td>44</td>
</tr>
<tr>
<td>2012-13</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>59</td>
<td>67</td>
</tr>
<tr>
<td>2013-14</td>
<td>22</td>
<td>4</td>
<td>6</td>
<td>62</td>
<td>94</td>
</tr>
<tr>
<td>2014-15</td>
<td>15</td>
<td>6</td>
<td>5</td>
<td>56</td>
<td>82</td>
</tr>
<tr>
<td>2015-16</td>
<td>7</td>
<td>1</td>
<td>5</td>
<td>46</td>
<td>59</td>
</tr>
<tr>
<td>Average</td>
<td>10</td>
<td>4</td>
<td>4</td>
<td>49</td>
<td>67</td>
</tr>
</tbody>
</table>

Note: Incorrect tenancy agreement particulars were found in the Requisition Forms mostly in respect of the commercial properties (including shops) mainly because their tenancy agreements contain more complicated clauses than other properties, e.g., provisions for rent adjustment during the tenancy period or additional rents payable according to turnover. Payers are used to submit relevant rental figures retrieved directly from the companies’ computer systems, without appropriately reflecting other relevant rent adjustments clauses. RVD will review and enhance the templates of the Requisition Forms and remind payers how to furnish accurate rental particulars.
(d) Paragraphs 2.7 and 2.8 of the audit report -

5. RVD has taken the following measures in strengthening the rental verification mechanism:

(i) Promote and educate the public of their responsibility to furnish rental particulars accurately and comprehensively;
(ii) Review and enhance the templates of the Requisition Forms to make it clear to payers the information that they should furnish;
(iii) Encourage the use of RVD templates in reporting to avoid omission; and
(iv) Remind those who have submitted incorrect information of the importance of furnishing rental particulars accurately and comprehensively through telephone conversation, correspondence and customer liaison meetings.

Under the Rating Ordinance and the Government Rent (Assessment and Collection) Ordinance, RVD may demand copies of tenancy agreements and rent receipts from rates/Government rent payers for the assessment of rates and Government rent. On environmentally friendly ground, we consider it unnecessary to request payers to return copies of relevant documents along with Requisition Forms. We would only request the payers of selected properties to provide copies of tenancy agreements and rent receipts for rental verification purpose.

(e) Paragraph 2.9 of the audit report -

6. RVD has taken the following measures for improving the return rate of Form R1As:

(i) Continue to promote via press release, radio announcements of public interest, RVD website and MyGovHK, reminding the public of their responsibility to complete and return Requisition Forms, as well as encouraging electronic submission of Form R1As via RVD website; and
(ii) Send email to remind payers who use eRVD Bill to complete and return Requisition Forms on time and encourage them to submit Form R1As via electronic means.

We will consider the need to develop a mobile website to facilitate submission of Form R1As through mobile phones; and enhance the deterrent effect by strengthening prosecution of those who have not returned the Requisition Forms.
7. Moreover, we will continue to monitor the return rate of the Requisition Forms and, should the situation get worsen, consider taking appropriate action to motivate the return of the Forms and to request Department of Justice to relay to the court whether or not the sentences (a fine generally ranges between $1,000 and $2,000) are sufficient to achieve a deterrent effect.

8. It is worth noting that the return rate has reached some 80% in recent years, which is already higher than other countries. As a matter of fact, apart from the Requisition Forms, RVD will also collect rental information from other sources, such as the Form CR109 and the stamped tenancy agreements. RVD’s annual revaluation is based on the overall rental level of properties, and the impact of non-return of individual Requisition Forms on the revaluation exercise is limited.

9. After completion of each GR, a statistical audit is conducted by RVD, based on the “Standard on Ratio Studies” issued by the International Association of Assessing Officers, at a macro level to affirm that the new rateable values are of reasonable, correct and consistent level as at the valuation reference date, and that the required standard of relative equity amongst individual assessments both between and within different property groups has been achieved. The statistical audits have shown that the accuracy of RVD’s valuations has met the international standard.

(f) Paragraphs 2.16(d) and 2.17 of the audit report

10. We have liaised with the Government Chief Information Officer seeking his assistance in exploring the feasibility of developing paperless solutions for capturing rental information for stamped tenancy agreements.

II. Interim Valuations

(g) 11. Based on Table 7 of the audit report, and with appropriate adjustment for transient cases (i.e. those with orders issued within 1 year), already assessed cases and other non-assessable cases, we have arrived at a rough estimate in the amount of about $4.2 million per annum of rates income if such UBWs (referring to such major types of UBWs as those on top roofs, side roofs, lane/yard, subdivided units and basement excavation) would have been assessed, representing only 0.02% of the total rates revenues in 2016-17. However, this is a rough revenue estimate which cannot be treated as a proper basis for collecting the additional rates. We estimate that we need to spend $11.1 million in terms of staff cost for assessing these UBWs to rates (about 2% of the total departmental expenditure in 2016-17).
12. RVD will put in place a regular bring-up system (the details are set out in Item (i) paragraph 22) to keep track of those unauthorised building works (UBWs) with removal orders issued but not yet demolished so that timely interim valuations would be made within the 2-year time-bar in recovering rates, so as to better safeguard rates revenue.

13. Upon receiving the memo from the Buildings Department (BD) in January 2016 about the cessation of the notification arrangement, RVD had enquired about the background of the decision. It was the intention then that RVD would reactivate negotiation with BD of setting up afresh a notification mechanism when the audit report was released. In fact, RVD discussed with BD on 12 May 2016 and the two departments agreed to put in place a cost-effective, regular and paperless notification mechanism. In each quarter, BD sends to RVD lists retrieved from its computer systems covering UBWs with removal orders issued but not yet demolished (such UBWs may be assessable to rates) and demolished UBWs. The notification mechanism will also cover a list of UBWs which are not issued with removal orders, but involve high rental values and are difficult to detect by general external inspections (e.g. subdivided properties and basements) so that RVD could assess the rates and Government rent of the properties concerned more effectively.

III. Rates Exemption for Rural Properties

14. In the early years, the assessment and collection of rates were only confined to the properties in the urban area. Starting from 1954, the rating system adopted in the urban area was extended by phases to the New Territories. The whole area of the New Territories was included in the rating area in 1988. Separately, the Rating Ordinance stipulates that the properties in designated village areas (DVAs) are exempted from assessment to rates. Hence, RVD pooled its resources together previously to assess the houses outside DVAs where more rateable properties were found and to consider if the boundaries of DVAs should be revised. Any part of the DVAs which no longer meets the relevant exemption criteria would be taken out from the DVAs, and the village houses within the part so removed would no longer be exempted on such basis. RVD has all along been taking forward such duties in a prudent
manner in order to safeguard government revenue on rates. Since 1992 when the relevant policy was established, RVD has conducted a total of 7 exercises to amend the boundaries of DVAs and had de-designated 227 DVAs.

15. In response to the findings and recommendations of the audit report, for the houses within DVAs where non-compliance has been detected and where rateable values have been assessed for Government rent purposes, RVD will issue rates demands in the coming few months. As to other non-compliant houses within DVAs, RVD will work out a plan by the fourth quarter of 2016 to assess them to rates, with a view to issuing rates demands in phases starting from the first quarter of 2017. RVD will also seek the assistance of BD and the Lands Department to provide information on ineligible cases detected in the course of their enforcement action with a view to expediting the whole assessment process.

IV. Collection of Rates and Government Rent

(k) Paragraph 5.5 of the audit report -

16. As at 30 September 2015, the $172 million outstanding in rates and government rent as set out in Table 17 involved about 34 000 accounts with breakdown as follows :-

<table>
<thead>
<tr>
<th>From the earliest period in arrears</th>
<th>No. of accounts</th>
<th>Cumulative arrears per account</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Lowest ($)</td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>12 900</td>
<td>4</td>
</tr>
<tr>
<td>1 to less than 2 years</td>
<td>900</td>
<td>5</td>
</tr>
<tr>
<td>2 years or more</td>
<td>20 200³</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>34 000</td>
<td></td>
</tr>
</tbody>
</table>

Notes
1 Categorised by the earliest outstanding period in the accounts to avoid double-counting as one account may contain arrears straddling different periods.
2 Payer undergoing compulsory liquidation proceedings.
3 As at 31 March 2016, 13 200 accounts (65%) had been settled and another 2 900 (14.5%) with judgment obtained or charges registered.
4 Account already settled.
17. Recovery of arrears in rates and government rent is an ongoing task of RVD. In fact, in the previous 3 years, RVD recovered over $100 million annually through legal actions or after issuing warning letters. As at 31 March 2016, follow-up action in respect of the 34 000 accounts is as follows -

<table>
<thead>
<tr>
<th>Cases</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>14 000 cases</td>
<td>of which some $70 million have been recovered</td>
</tr>
<tr>
<td>4 000 cases</td>
<td>with judgment obtained or charges registered</td>
</tr>
<tr>
<td>2 000 cases</td>
<td>the very small amount of arrears involved have been/will be written off on account of cost effectiveness in taking further recovery action</td>
</tr>
<tr>
<td>9 000 cases</td>
<td>recovery actions ongoing for these accounts with amounts outstanding for less than 1 year</td>
</tr>
<tr>
<td>3 000 cases</td>
<td>with small outstanding amount *</td>
</tr>
<tr>
<td>2 000 cases</td>
<td>with property owners deceased, bankrupt, or liquidated, etc. *</td>
</tr>
</tbody>
</table>

Note: *RVD will take necessary cost effective actions to recover or write off the arrears when appropriate according to the merit of individual cases.

18. RVD will take all legal means to recover arrears in rates and government rent, including issuing warning letters and taking legal actions at Small Claims Tribunal or District Court. We have reviewed internal procedures and redeployed the limited resources in according priority to protecting Government’s interest by speeding up legal actions on arrears cases, including application of charging orders for the judgments obtained. While on legal advice, in general a charging order can provide adequate protection to the interest of the Government, RVD will nonetheless seek all practicable and legal means to recover arrears in respect of properties subject to charging orders. Under its existing mechanism, when failing all legal means to recover the arrears and no other practicable action is available after seeking legal advice, RVD will refer the case to Lands Department (LandsD) for considering re-entry/vesting actions against the property under the Government Rights (Re-entry and Vesting Remedies) Ordinance (Cap.126) where government rent is involved.

19. Having considered the Director of Audit’s recommendation and reviewed its internal procedures for recovery of arrears, RVD will remind the staff concerned to refer long outstanding arrears cases with charging orders earlier where warranted to the LandsD for consideration of re-entry/vesting action.
V. Improvement Measures

20. In response to the request of the Financial Services and Treasury Bureau, RVD will

(i) put in place a regular “bring-up system” to keep track of the UBWs with removal orders issued but not yet demolished so that timely interim valuations would be made within the 2-year time-bar in recovering rates, so as to better safeguard rates revenue; and

(ii) to issue rates demand notes in the coming few months for the houses within DVAs where non-compliance has been detected and where rateable values have been assessed by RVD for Government rent purpose. As to other non-compliant houses within DVAs, RVD will work out a plan by the fourth quarter of 2016, with a view to issuing rates demand notes in phases starting from the first quarter of 2017.

21. As we are now making an assessment on the resources involved in taking forward the various recommendations for enhancing operation as set out in the audit report, we cannot provide at this stage an estimate of the additional resources required. By reviewing the nature and importance of various tasks from time to time, we will set our work priorities and pay regard to cost-effectiveness so as to strike a proper balance. If necessary, we will make an application for allocating additional resources for the extra work.

22. The regular bring-up system is detailed as follows:

(i) BD has undertaken to regularly provide RVD with lists of specific types of UBWs (the details are set out at answer (i) in paragraph 13 above).

(ii) RVD will set up a database to store the data collected from BD and analyze such data by reference to RVD’s records. RVD will regularly update the list and demolished UBWs will be excluded from the list.

(iii) We will deploy our staff to inspect and assess the UBWs which were issued with removal orders 15 months’ ago and still standing, so that timely interim valuations would be made within the 2-year time-bar in recovering rates, so as to better safeguard rates revenue.

Yours sincerely,

( TANG Ping Kwong )
Commissioner of Rating and Valuation
c.c. Secretary for Financial Services and the Treasury
   Director of Buildings
   Director of Home Affairs
   Director of Lands
   Director of Audit
Chapter 1 of the Director of Audit’s Report No.66

Supplementary information requested by the Public Accounts Committee

This note sets out the supplementary information provided by the Financial Services and the Treasury Bureau (“FSTB”) in the light of the request of the Public Accounts Committee as set out in its letter of 10 May 2016.

(a) In view of the long time taken to demolish illegal rooftop structures and other assessable unauthorised building works (“UBWs”) and the 24-month time bar in recovering rates, whether the Administration would consider reviewing the 2000-01 policy decision of not collecting rates from new or re-erected illegal rooftop structures.

1. The decision of not collecting rates from new or re-erected illegal rooftop structures is part of the package of measures drawn up by the Government in 2000-01 to tackle UBWs. Since the Government expected at that time that new or re-erected illegal rooftop structures would be stopped promptly, the decision concerned was in line with the principles adopted by the Rating and Valuation Department (“RVD”) all along, i.e. properties of transient nature would not be assessed to rates.

2. Having examined the matter, we consider that the policy intention of the decision concerned remains appropriate, though there is room for improvement in its implementation. As the Audit report points out, it may take some time for individual UBWs to be demolished after removal orders have been issued by the Buildings Department (“BD”). We therefore consider that, on the premise of maintaining the above rating principles, the Government would need to ensure that UBWs would not keep on being exempted from rating assessment due to delay in their demolition. The Government would therefore improve the arrangements. For new or re-erected illegal rooftop structures, RVD will put in place a bring-up system to keep track of those new or re-erected illegal rooftop structures with removal orders issued but not yet demolished. The bring-up system will also cover other UBWs with removal orders issued but not yet demolished, such that timely interim valuations would be made and rates be charged on that basis before the 24-month time-bar, so as to better safeguard rates revenue. As regards existing illegal rooftop structures (i.e. those not being new or re-erected cases) and UBWs already assessed to rates, RVD has all along been collecting rates from these structures until they are demolished.
(b) Whether consideration would be given to using big data technology to capture information on UBWs to facilitate the sharing of information among relevant departments for the purpose of rates and government rent assessment.

3. As mentioned by RVD in paragraph 13 of its reply to the Public Accounts Committee, RVD has discussed the matter with BD, and the two departments have agreed to put in place a cost-effective, regular and paperless notification mechanism. BD would retrieve from its computer system, on a quarterly basis, a list of UBWs with removal orders issued but not yet demolished and may thus be assessable to rates, and a list of demolished UBWs, and would forward the lists to RVD. The notification mechanism will also cover UBWs which are not issued with removal orders, but involve high rental values and are difficult to detect merely by general external inspections (e.g. subdivided properties and basements), so as to facilitate RVD’s assessment of rates and government rent of the properties concerned in a more effective manner.

4. RVD will, when enhancing its information technology system, consider the views of Members and consider whether there is a need to make use of the big data technology. From the rating perspective, not all UBWs in BD’s records are rateable items. Moreover, according to the analysis of reassessed cases completed in recent years, the average increase in rateable values which could be brought about by UBWs on the rooftop, flat roof and lane/yard was less than 5%. RVD would therefore need to consider the actual effectiveness of using the technology in enhancing the collection of property information for assessment of rates and government rent, and whether it is cost-effective to do so.

(c) The penalties in respect of non-compliance with Form R1A submission requirement vis-a-vis those for not filling tax returns on time or providing incorrect information in tax returns.

5. According to the Rating Ordinance (Cap 116) and the Government Rent (Assessment and Collection) Ordinance (Cap 515), any person who refuses to furnish particulars requested in the Requisition Form for Particulars of Tenements (Form R1A) is liable to a fine at level 3 (i.e. $10,000), and any person who knowingly makes a false statement in Form R1A is liable to a fine at level 4 (i.e. $25,000). In addition to the above penalties, a person convicted under the circumstances as mentioned above is also liable to a fine of treble the amount of rates and/or government rent undercharged.

Appendix 5

- 91 -
6. As regards the Inland Revenue Ordinance (Cap 112), any person who without reasonable excuse fails to file a tax return is liable to a fine at level 3 (i.e. $10,000) (i.e. same with the penalty for refusing to furnish particulars requested in Form R1A), and any person who without reasonable excuse makes an incorrect return is liable to a fine at level 3 (i.e. $10,000). Any person who wilfully with intent to evade tax makes any false statement in a tax return is liable to a maximum penalty of a fine at level 5 (i.e. $50,000) and imprisonment for 3 years. In addition to the above penalties, a person convicted under the circumstances as mentioned above is also liable to a fine of treble the amount of tax undercharged.

7. We have to point out that Form R1A and tax return are of different nature. Whilst the penalty provisions relating to the two are similar in certain parts, they are not entirely comparable to each other. For tax return, generally, each taxpayer has to file tax return annually, and Inland Revenue Department ("IRD") would compute the tax amount to be payable by a taxpayer based on the information furnished in the tax return filed by the taxpayer and other information available to IRD. In other words, the information (say, on income and deductions) furnished by the taxpayer in the tax return would affect the tax amount required to be paid by that taxpayer for a certain Year of Assessment. On the other hand, for Form R1A, it serves as one of the sources from which RVD collects rental information. RVD would make use of the rental information provided by ratepayers in Form R1A as well as information collected from other sources to analyse the overall market rental level, on which the assessment of the rateable value of the tenement concerned is based. In other words, the rates chargeable by RVD is based on rateable value of the tenement concerned, rather than the rental amount provided by the ratepayer in Form R1A.

(d) Whether consideration would be given to increasing the penalties for failure to return Form R1As or providing incorrect information in Form R1As by making reference to the penalties for failure to make tax returns or making incorrect tax returns, with a view to achieving a greater deterrent effect.

8. As mentioned in paragraph 7 above, Form R1A and tax return are of different nature. Whilst the penalty provisions relating to the two are similar in certain parts, they are not entirely comparable to each other. The current penalties relating to Form R1A (i.e. $10,000 for refusal to
furnish particulars requested in the form, and $25,000 for knowingly making a false statement in the form) are appropriate. RVD would enhance the prosecution work in accordance with the legislative provisions and the actual facts of the case, to the extent permitted by the manpower resources available. At present, the amount of fines sentenced by the court is around $1,000 to $2,000, which is lower than the statutory limit. RVD would closely monitor the return rate of Form R1A. In case the situation deteriorates notably, RVD would seek to reflect the situation through the Department of Justice to the court, so that the court may take the latest trend into account when sentencing.

Efforts by other departments in safeguarding revenue on rates and government rent

9. In its letters of 10 May 2016 to BD, Home Affairs Department (“HAD”) and Lands Department (“Lands D”), the Public Accounts Committee has requested the relevant departments to provide information for certain improvement measures to FSTB for consolidation. The following sets out the consolidated reply based on information provided by the relevant departments.

Buildings Department (regarding UBWs)

10. RVD has discussed the matter with BD, and the two departments have agreed to put in place a regular notification mechanism. BD would retrieve the relevant information from its computer system, on a quarterly basis, and would forward the information to RVD in a paperless manner (as detailed in paragraph 3 above), so as to facilitate RVD’s assessment of rates and government rent of the properties concerned in a more effective manner.

Home Affairs Department (regarding village houses outside the designated village area)

11. HAD relies heavily on the assistance of other departments for detecting non-compliance of rates exemption conditions, and amongst these, UBWs. Under the existing mechanism, HAD has implemented various measures to ensure that timely actions would be taken on ineligible rates-exempted houses outside designated village areas (“DVAs”). The measures are listed in the Annex. If non-compliance of application condition is found,
HAD will take follow up actions including revoking the exemption granted to the tenements, if appropriate.

12. At present, HAD randomly selects exempted cases for Lands D to conduct field inspection regarding the existence of UBWs. Regarding paragraph 4.23(b) of the Audit report which recommends stepping up field inspections of rates-exempted houses outside the DVAs, this would involve additional resources. HAD would need to further discuss the matter with Lands D, and consider how to make the best use of existing resources to enhance the effectiveness of field inspections.

13. Moreover, regarding the recommendation in paragraph 4.23(c) of the Audit Report (about village houses with UBWs detected), HAD has already started exploring with BD the sharing of information on UBWs in rates-exempted houses in the New Territories through the use of information technology. It is expected that, through efficient electronic data matching and checking, it would enable early detection of non-compliance due to UBWs without generating unaffordable additional workload.

**Lands Department (regarding unauthorised structures on agricultural lands / village houses, and bona vacantia cases)**

14. Regarding paragraph 4.21 of the Audit Report (about unauthorised structures on agricultural land), Lands D has already followed up with RVD to explore extending the notification arrangement to cover unauthorised structures on agricultural land to which Lands D has issued warning letters. As agreed between the two departments, the New Territories District Lands Offices (“NTDLOs”) would copy warning letters issued by them in respect of these unauthorised structures to RVD in parallel, so that the latter can revoke the rates exemption for the agricultural land involved.

15. Regarding paragraph 4.24(a) of the Audit Report (about village houses with UBWs detected), HAD provides a list of all rates exempted houses to Lands D for matching check against the latter’s records on houses detected to have UBWs during its routine work. Lands D has reminded all the NTDLOs in writing on 21 April 2016 of the following:

   (a) the result of the field inspections and matching checks should be provided to HAD in a timely manner;

   (b) all matched cases should be reported to HAD as and when UBW
was detected, without waiting for the registration of the warning letter in the Land Registry; and

(c) when reporting to HAD, sufficient information of the matched cases should be provided, including the date of detection of the UBW and the information of the properties on which the UBW was erected/detected.

Moreover, in order to enhance the efficiency of the matching checks, Lands D will further liaise with HAD to explore measures to improve the compatibility of data between the two departments, so that automated checking could be introduced as far as practicable.

16. As regards paragraph 5.8(b) of the Audit Report (about bona vacantia cases), in the course of recovering arrears, RVD searches for information on the owners or occupiers through different channels. For bona vacantia properties of dissolved companies, if RVD cannot recover the arrears from the occupier, RVD will request Lands D to inform RVD upon taking possession of the relevant property, so that RVD can delete the rating assessment and update the account records, so as to complete the accounting procedure. Whilst RVD does not possess first-hand information, RVD has reminded its staff to forward such notifications to Lands D as soon as practicable, with a view to further facilitating Lands D in taking action on bona vacantia cases. According to Lands D, the Government may not be in a position to take possession or dispose of the bona vacantia properties under certain circumstances. Moreover, Lands D’s follow up action on bona vacantia properties may not achieve the purpose of recovering outstanding rates and/or government rent thereof. For bona vacantia cases mentioned by RVD, Lands D will continue to conduct investigation and take appropriate action. Lands D has reminded its staff to keep RVD informed, in a timely manner, of the possession and disposal of the property or other relevant information, including bona vacantia cases where the dissolved companies have applied for restoration, so as to facilitate RVD’s updating of the rating assessment and account records.

Financial Services and the Treasury Bureau
May 2016
Dear Mr CHU,

I refer to your letter of 1 June 2016 to the Secretary for Financial Services and the Treasury (“SFST”), and set out our reply as follows.

Policy of not collecting rates from new or re-erected illegal rooftop structures

2. The decision not to collect rates from new or re-erected illegal rooftop structures was part of the package of measures drawn up by the Government in 2000-01 to tackle UBWs. Since the Government expected at that time that new or re-erected illegal rooftop structures would be stopped promptly, the decision concerned was in line with the principles adopted by the Rating and Valuation Department (“RVD”) all along, i.e. properties of transient nature would not be assessed to rates.

3. At the public hearing on 7 May 2016, SFST mentioned that the November 2000 arrangement would no longer be implemented. SFST also mentioned that -
(a) the premise on which the then Secretary for the Treasury responded to the relevant proposal was in line with the principles adopted by RVD in handling unauthorised building works ("UBWs"), i.e. no rates would be collected on properties if they are of transient nature; and

(b) FSTB has asked RVD to put in place some form of bring up system to keep track of those UBWs with removal orders issued but not yet demolished such that timely interim valuations would be made within the 24-month time bar in recovering rates.

4. As set out in the supplementary information provided on 27 May, we consider that the policy intention of the decision concerned remains appropriate, though there is room for improvement in its implementation. For new or re-erected illegal rooftop structures, RVD would no longer hold up the rating assessment on such structures across the board. Under the bring up system as mentioned above, if any such structures with removal orders issued but not yet demolished in 24 months, RVD would make timely interim valuations such that rates would be charged on such structures (including rates to be recovered for the 24-month period concerned) in good time. This has changed the implementation arrangement made in November 2000. The relevant formulation is not inconsistent with the remarks made by SFST at the hearing, and is also in line with SFST’s understanding on the expression at the hearing that “a structure would not be exempted from rates solely because it is an UBW”.

Coordination among relevant government departments

5. To follow up the public hearing on 7 May 2016, this Bureau held immediate discussion, right after the hearing, with the heads of the four departments concerned (i.e. Buildings Department ("BD"), Home Affairs Department ("HAD"), Lands Department ("Lands D") and RVD), and all departments agreed to strengthen and improve communications. Thereafter, the departments made further contacts among them on the improvement measures, and individual departments would also meet to have further discussion, as in the case of BD and RVD which had a meeting on 12 May 2016 on the regular notification system (which was mentioned in paragraphs 3 and 10 of the supplementary information provided by FSTB to the Committee on 27 May). Moreover, in the light of FSTB’s suggestion,
HAD and Lands D have agreed to further discuss and consider how to make the best use of existing resources to enhance the effectiveness of field inspections (as mentioned in paragraph 12 of the supplementary information provided). So far, we consider that the departments have made effective coordination and appropriate follow-up among them on the improvement measures required. We would consider, where necessary, holding a cross-departmental meeting again to further discuss the matters involved.

Yours sincerely,

( Gary Poon )
for Secretary for Financial Services and the Treasury

c.c. Director of Buildings
   Director of Home Affairs
   Director of Lands
   Commissioner of Rating and Valuation
To: Mr Anthony CHU  
Public Accounts Committee  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong  

30 June 2016

Dear Mr CHU,

Public Accounts Committee  
Consideration of Chapter 1 of the Director of Audit’s Report No. 66  
Efforts of the Rating and Valuation Department in safeguarding revenue on rates and Government rent

As requested in your letter of 24 June 2016, I append below the additional information required –

Estimated rates income of Unauthorized Building Works  
Appendix 5  
As stated in paragraph 11 of our previous letter of 24 May 2016, the rough estimate of rates income which could be generated, if the major types of unauthorized building works (UBWs) as mentioned in Table 7 of the audit report are to be assessed, amounts to some $4.2 million per annum. The basis of arriving at the rough estimate is tabulated below, with the relevant assumptions set out in the Notes:

<table>
<thead>
<tr>
<th>Major types of UBWs mentioned in Table 7</th>
<th>Number of Cases to be assessed</th>
<th>Additional Rates Income per annum (note 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top roofs/side roofs/ lane/yard</td>
<td>3 200 (note 1)</td>
<td>$1.8 million</td>
</tr>
<tr>
<td>subdivided units/ basement excavation</td>
<td>800 (note 2)</td>
<td>$2.4 million</td>
</tr>
<tr>
<td>Total</td>
<td>4 000</td>
<td>$4.2 million</td>
</tr>
</tbody>
</table>

Note 1: The number of cases to be assessed are based on the cases (i.e. 4 844 + 6 685 + 2 393 = 13 922) stated in Table 7 of the audit report, with appropriate adjustment to take out the likely number of possibly transient cases (about 20%), cases already assessed to rates (about 42%, with reference to the analysis of the 1,000 sample cases listed in Table 8 of the audit report), and cases involving non-assessable UBWs (about 15%, e.g. prefabricated mobile storage...
cabinets, trellis and retractable canvass awnings on rooftop, flat roof and lane/yard, based on the findings of the Department’s sample checks of the 1,000 sample cases listed in Table 8) which would not give rise to any additional rates income.

**Note 2**: The number of cases to be assessed are based on the cases (i.e. \(889 + 35 = 924\)) stated in Table 7 of the audit report, with appropriate adjustment to take out the likely number of cases already assessed to rates (about 13%, with reference to the analysis of the 1,000 sample cases listed in Table 8 of the audit report and the findings of the Department’s sample checks).

**Note 3**: The rates income is based on the average increase in RV of the concerned tenements at 2015/16 level after reflecting the effect of the UBWs of the relevant types.

**Estimated Staff Cost in Assessing the Unauthorized Building Works**

The above figure of $4.2 million, being a rough estimate, cannot serve as a proper basis for RVD to collect additional rates. RVD would need to deploy staff resources to assess the rateable value of the concerned tenements reflecting the effect of UBWs. In terms of the likely staff cost incurred, we estimate that about 4,360 additional mandays (i.e. 1.09 mandays on average for each case), or $11.1 million (based on the 2015-16 salary level of the staff involved), would need to be deployed, having regard to the established workflow and experience for assessing the ratable values of relevant tenements.

Yours sincerely,

( P.K. IP )
for Commissioner of Rating and Valuation

c.c. Secretary for Financial Services and the Treasury
    Director of Buildings
    Director of Home Affairs
    Director of Lands
    Director of Audit
24 May 2016

By Post and
e-mail: ahychu@legco.gov.hk

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

Dear Mr CHU,

Public Accounts Committee
Consideration of Chapter 1 of the Director of Audit’s Report No. 66
Efforts of the Rating and Valuation Department in
Safeguarding Revenue on Rates and Government Rent

Thank you for your letter of 10 May 2016. We are pleased to provide below the information requested.

Paragraph 3.22 of the Audit Report on Implementation of Notification Arrangements

2. Regarding paragraph 3.22 and Table 9 of the Audit Report, you may wish to note that the 85 removal orders were randomly selected from about 81,000 orders issued during the period from 2010 to 2014. The Buildings Department (BD) has recently selected a similar sample of removal orders (133 orders) issued during an earlier period from 2001 to 2009 and revealed that 65% of them had been copied to the Rating and Valuation Department (RVD).

3. The notification arrangements were first set up in 2001 to facilitate the
RVD’s review of the rateable values of new or re-erected illegal rooftop structures on single-staircase buildings to avoid overcharging of rates\(^1\) and had generally been implemented by the BD. The purpose of extending the notification arrangements to other types of unauthorised building works (UBWs) in 2004 was to facilitate the RVD’s review of the rateable values of properties with UBWs removed\(^2\), i.e. avoiding overcharging of rates. However, the extended arrangements had resulted in a drastic increase in the number of removal orders and compliance letters required to be sent to the RVD. In addition, BD’s manpower at that time had already been in full stretch owing to the need to step up enforcement actions on UBWs erected on external walls of buildings and illegal rooftop structures on single-staircase buildings, handle the large number of reports on UBWs and tackle other building safety initiatives. Due to the enormous workload on ongoing initiatives since 2000s, the BD could not put the extended notification arrangements fully into practice.

**Paragraph 3.22 of the Audit Report on Cessation of Notification Arrangements**

4. When reviewing its manpower for redeployment of resources to clear backlog orders in February 2014, the BD noted that the notification arrangements for UBWs had not been fully put into practice due to the large number of orders and letters involved and the heavy workload on various building safety initiatives. Based on BD’s operational experience, the information provided under the notification arrangements would not be sufficient in meeting the RVD’s needs and the RVD would require further details of the UBWs, such as copies of plans, photos and inspection reports by the BD in some cases. Hence, the BD decided to cease the notification arrangements and annul the instruction\(^3\).

5. To follow up the recommendations in Chapter 1 of the Director of Audit’s Report No. 64 on BD’s actions on UBWs issued in April 2015, the BD has conducted a review on its work process and internal instructions to enhance its efficiency and reprioritise its work. In January 2016, the BD noted that the instruction for the notification arrangements for unauthorised signboards remained in force while such arrangements had not been fully put into practice due to the

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1 Paragraph 3.11 of the Audit Report.
2 Paragraph 3.12 of the Audit Report.
3 Paragraph 3.21 of the Audit Report.
workload situation. In order to redeploy manpower to clear backlog orders and due to the heavy workload arising from the notification arrangements as elaborated in paragraph 4 above, the BD ceased the notification arrangements for unauthorised signboards. Accordingly, the BD notified the RVD that the notification arrangements for UBWs information had been ceased. The BD did not receive any views or concern from RVD in response to the aforementioned notification.

6.

7.

8.

4 We were told recently by RVD that as the Audit Commission was conducting a value-for-money audit on RVD’s work in January 2016, they deferred to give their views/comments on the cessation arrangement to the BD at a later time as there would be other matters requiring coordination between the two Departments.
Paragraph 2.16(e) and 3.41 of the Audit Report and Paragraph 6 of the Opening Remark of the Secretary for Financial Services and Treasury on Measures to Sharing UBWs Information

10. The BD has provided input to the Financial Services and Treasury Bureau.

11. Should you have any queries, please contact the undersigned at 2626 1131.

Yours sincerely,

(T C YU)
Assistant Director/Existing Buildings 2
for Director of Buildings

c.c. Commissioner of Rating and Valuation (Fax No. : 2152 0188)
    Director of Lands (Fax No. : 2868 3248)
    Director of Home Affairs (Fax No. : 2574 8638)
    Director of Audit (Fax No. : 2583 9063)
Annex

Measures taken by the Home Affairs Department to ensure that timely actions would be taken on ineligible rates-exempted houses outside designated village areas

(1) The Rating and Valuation Department ("RVD") provides the Home Affairs Department ("HAD") regularly with reports of rental records pertinent to rates exempted tenements;

(2) Land Registry and RVD would notify HAD upon change of ownership/rates payers pertinent to rates exempted tenements;

(3) HAD randomly selects 10 exempted cases per district (i.e. 90 cases in total) every six month for the Lands Department ("LandsD") to conduct field inspection regarding the existence of unauthorized building works ("UBWs"); and

(4) HAD provides a list of all rates exempted houses to LandsD every four months for matching check against the records maintained by the eight New Territories District Lands Offices for houses which have been detected to have UBWs during their routine work.
### Response to the Public Accounts Committee on Chapter 2 of the Director of Audit’s Report No. 66

<table>
<thead>
<tr>
<th>Item [Addressee]</th>
<th>Question from PAC</th>
<th>Response to PAC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issue 1 : Utilization of public fresh food wholesale markets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) [for AFCD]</td>
<td>According to paragraph 1.8, total throughput of the 12 public fresh food wholesale markets was down 14% from 776 000 tonnes in 2005-2006 to 666 000 tonnes in 2014-2015. The percentage of the fresh food supplied through the 12 public markets had decreased from 58% in 2005-2006 to 37% in 2014-2015. Will the trend of decline in volume and market share continue?</td>
<td>The decline of throughput and market share was mainly due to the increasing competition from alternative food distribution channels, including internalisation of wholesale activities by supermarkets and direct purchase by retailers from suppliers. According to the trade, the downward trend would unlikely persist, as there is still steady demand from public wet markets. Wholesale markets would remain an important component of Hong Kong’s food distribution system.</td>
</tr>
<tr>
<td>(b) [for AFCD]</td>
<td>According to paragraph 2.9(a), for the four unutilized piers at Western Food Market, construction work would commence in early 2016 for their conversion into a promenade by late 2017. Has the work commenced? Will it be completed on schedule?</td>
<td>The four piers were handed over to the Home Affairs Department on 29 January 2016 for implementation of the harbour-front enhancement and revitalisation project under the Signature Project Scheme. According to the Home Affairs Department, the construction works of the waterfront promenade commenced in early 2016 and the project is expected to be completed in late 2017.</td>
</tr>
<tr>
<td>(c) [for AFCD]</td>
<td>According to paragraph 2.9(b), an unutilized pier at Cheung Sha Wan Food Market was scheduled to be auctioned together with other sites for housing construction in 2017. Is there any plan for putting the pier into gainful use in the meantime?</td>
<td>The pier concerned is due to be surrendered to the Lands Department in 2017. There is no plan to let out the pier for other use for such a short interim period.</td>
</tr>
<tr>
<td>(d) [for AFCD]</td>
<td>According to paragraph 2.10, another unutilized pier at Cheung Sha Wan Food Market has to remain because it was very close to the sea water intake point of the condensing water cooling system of the Market.</td>
<td>In September 2008, AFCD consulted the Harbour-front Enhancement Committee’s Sub-committee on Harbour Plan Review. The Sub-committee did not support the demolition of the under-utilized piers.</td>
</tr>
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</table>
**Response to the Public Accounts Committee on Chapter 2 of the Director of Audit’s Report No. 66**

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<table>
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<tr>
<td>According to paragraph 2.11, the unutilized pier had to be maintained even unused. Does the Administration agree that it is unsatisfactory to leave the pier unused but incurring maintenance cost? What further action will be taken in this regard?</td>
<td>It further advised that if the piers were no longer required by AFCD for wholesale market use, they should be returned to the Government for development into public facilities for enjoyment by the public. To save costs, AFCD has already requested its maintenance agent, the Civil Engineering and Development Department (CEDD), to carry out basic maintenance work only for maintaining the structural safety of the pier. To make good use of the pier in the interim, in May 2016, AFCD agreed to let CEDD use the under-utilized pier for loading/unloading of construction materials from March 2017. CEDD is now seeking approval from the Lands Department in accordance with the provisions of the relevant Short Term Tenancy.</td>
</tr>
<tr>
<td>(e) [for AFCD] According to paragraphs 21.2 and 2.13, AFCD would conduct further investigation into possible alternative uses of the battery charging areas which had not been used for over 10 years. Has the investigation been conducted? What are the findings?</td>
<td>The only vacant battery charging area at Western Wholesale Food Market is no longer required due to changes in the practice of transporters. AFCD has earlier explored the technical feasibility of converting it into a market stall or a vehicle turning area. It is the advice of the Architectural Services Department (ArchSD) that such conversion is not feasible, as the ventilation of the adjoining toilet and hence food hygiene would be adversely affected. Furthermore, the proposed vehicle turning area may hinder maintenance of underground cables. AFCD would continue to consult market users and explore other possible uses of this battery charging area in conjunction with ArchSD.</td>
</tr>
<tr>
<td>(f) [for AFCD] According to paragraph 2.15 (Photograph 2), an ancillary facility occupied by AFCD was seemingly used for storing/dumping purpose.</td>
<td>No tender bid for the ancillary facility concerned has been received despite AFCD’s repeated invitations. As a result, the facility is currently</td>
</tr>
</tbody>
</table>
**Response to the Public Accounts Committee on Chapter 2 of the Director of Audit’s Report No. 66**

<table>
<thead>
<tr>
<th>(g) <strong>[for AFCD]</strong></th>
<th>Was the Administration aware of this? What measures have been taken to ensure that facilities allocated to AFCD and other government departments are put to gainful use?</th>
<th>used by AFCD for storage purpose. AFCD has all along been working in tandem with the Government Property Agency (GPA) to ensure that surplus facilities are put to gainful uses in accordance with the relevant Accommodation Regulations. AFCD would bring to GPA’s attention Audit’s recommendation, namely that priority should be given to putting facilities surplus to requirement to more gainful use instead of storage.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>According to paragraph 2.17, during March 2014 to December 2015, of the 22 trade offices and 7 ancillary facilities at Cheung Sha Wan Food Market which had been allocated to government departments, 17 (77%) trade offices and 6 (86%) ancillary facilities were not advertised for letting to traders. Why? Does the Administration agree that such facilities should be let to traders if they need them for conducting wholesale and related activities?</strong></td>
<td>The Administration agrees that first priority should be given to letting out such facilities to traders if they need them for conducting wholesale and related activities. AFCD has already amended the relevant guidelines and would start to include such facilities in the next quarterly advertisement exercise scheduled for June 2016.</td>
<td></td>
</tr>
<tr>
<td><strong>(h) [for AFCD]</strong></td>
<td>According to paragraph 2.24(c), FMO regularly reviewed and redeployed surplus market areas for other uses related to the wholesale marketing of marine fishes. According to paragraphs 2.29 and 2.30, in one FMO market some surplus areas were used to provide an excessive number of parking spaces. Has the Administration monitored the redeployment of surplus areas in FMO markets? What measures will be taken to ensure that surplus areas in all the seven FMO markets are put to gainful use related to the wholesale marketing of marine fishes?</td>
<td>AFCD in conjunction with FMO monitor and review regularly the use of FMO’s market areas to meet the changing needs of the fisheries trade and allocates accordingly the areas to uses essential to the wholesaling of marine fish and other fisheries products, and other uses related to the trade. Areas surplus to requirement in all the seven FMO markets will be redeployed to uses related to wholesale marketing of marine fish, such as live marine fish wholesaling, provision of clean seawater, local fishery products promotional activities, etc. FMO will have regular meetings with market users so as to keep abreast of their needs, which would help ensure the optimal use of the market areas.</td>
</tr>
</tbody>
</table>
### Issue 2: Management of AFCD markets

| (i) [for AFCD] | According to paragraphs 2.35 and 2.36, there were legal issues relating to the wholesaling of "fresh marine fishes" and "live marine fishes" in FMO markets that had not been addressed. What measures will be taken to address them? | We consider that as long as there is still fresh marine fish trading in a FMO Market, its name and location would need to be retained in the notification. Besides, since the proportion of fresh marine fish and live marine fish varies over time, and operations relating to fresh marine fish and live marine fish are intermingled within traders’ stalls, it is impracticable to demarcate a “live marine fish area” in an FMO Market for exclusion from the notification relating to that FMO Market. That said, the issues will be addressed when we review the roles and functions of FMO markets, and update the legal framework of the FMO markets set out in the Marine Fish (Marketing) Ordinance. |
| (j) [for AFCD] | According to paragraph 2.37, in the Tai Po Fish Market, 84% of the trading areas were not utilized as at September 2015. According to Note 12 to paragraph 2.38, most of the unutilized areas had been let to a trader who subsequently ceased business and FMO resumed the areas in June 2014. Why did AFCD fail to put the areas to gainful use after June 2014? What is the present position? | In the light of a successful pilot trial of weekend fishermen bazaar in Sai Kung Wholesale Fish Market introduced in 2015, FMO has been considering pursuing similar initiative for promoting local fisheries products in the Tai Po Wholesale Fish Market. To this end, FMO has reviewed and reassigned the areas within the trading areas of the market for different uses, including wholesaling and promotion of fisheries products. Currently, FMO is preparing a tender on the use of a portion of the trading areas in the market for wholesaling of fisheries products. The tender invitation will be issued soon. |

### Issue 2: Management of AFCD markets

<p>| (a) [for AFCD] | According to paragraph 3.6, in 2015, 7,373 inspections were conducted at AFCD markets and 85 verbal and written warnings against activities not complying with the tenancy terms were issued. However, according to paragraphs 3.7 and 3.9, the Audit Commission noted incidents of AFCD has stepped up inspections of markets and issued notices reminding market users of the importance of compliance with the tenancy terms and market administrative rules. During the period from 16 February 2016 to 11 May 2016, AFCD issued two warning letters to the |</p>
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<td>non-compliance / suspected non-compliance with the tenancy terms in</td>
<td>tenants found not complying with tenancy terms. AFCD will continue to monitor the situation closely and, where necessary, increase the frequency of market patrol.</td>
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<td>each of its visits to AFCD markets and referred to AFCD the relevant</td>
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<td>cases for follow-up. What follow-up actions have been taken by AFCD?</td>
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| (b) [for AFCD]                                                         | According to paragraph 3.14(a), AFCD will consider ways of enhancing compliance with the terms of tenancy agreements at AFCD markets. What measures will be taken in this regard? | In order to enhance compliance with the terms of tenancy agreement at AFCD markets, AFCD will -
|                                                                        |                                                                                                                                                                                                          |
|                                                                        | a) intensify supervisory inspections at markets;                                                                                                                                                          |
|                                                                        | b) conduct ad hoc operations and step up enforcement action with the Police to detect non-compliance;                                            |
|                                                                        | c) terminate tenancy for serious/repeated non-compliance.                                                                                                                                             |
| (c) [for AFCD]                                                         | According to paragraph 3.14(b), AFCD is liaising with ArchSD to install light-weight metal framework at entrance to prevent birds from entering market blocks. What is the progress? | On the advice of the Electrical and Mechanical Services Department, ArchSD considers the installation of light-weight metal framework at the entrance (as a measure to prevent birds from entering market blocks) not technically feasible because it would involve large scale alteration or relocation of existing electrical and mechanical apparatus and building services facilities. AFCD now plans to install bird netting to embrace the outer side of the whole market blocks to physically block birds from entering market blocks. AFCD will kick off the tender exercise in June 2016. |
|                                                                        |                                                                                                                                                                                                          |
| (d) [for AFCD]                                                         | According to paragraph 3.20, for each of the two open tender exercises conducted in 2015 for procuring supporting services for AFCD markets, AFCD received only two tenders. What measure will be taken to obtain more tenders and enhance competition in future tender exercises? | AFCD would see if any measure could be taken to enhance competition in the upcoming exercise for the Poultry Market in 2016. |
### Response to the Public Accounts Committee on Chapter 2 of the Director of Audit’s Report No. 66

| (e) [for AFCD] | According to paragraph 3.25, it is the Audit’s view that the prevailing tender assessment methodology is not conducive to improving contractor performance because contractors’ past performance is not taken into account and staff deployment plan is not required to be submitted for assessment. Does the Administration agree with the Audit’s views? How will the Administration improve the tender assessment methodology in future tender exercises? | AFCD would see if any measure could be taken to address those points on contractors’ performance, staff deployment plan and tender assessment methodology in the upcoming tender exercise for the Poultry Market in 2016. |

### Issue 3: Reprovisioning of private and public fresh food wholesale markets

| (a) [for FHB and AFCD] | According to paragraph 4.7, in January 2008, the Administration reported to PAC that fruit traders had strong reservations about the proposed relocation of the Yau Ma Tei Fruit Market to the Cheung Sha Wan Food Market Phase 2 site, and the Administration would continue to liaise with them. What specific actions had the Administration taken during the following three years, before FHB’s review in 2011 which decided to release the Cheung Sha Wan Food Market Phase 2 site for residential development (paragraph 4.8)? Why did the Administration fail to commence the relocation project? | During the period from 2008 to 2011, the Administration had maintained dialogue with fruit traders on the proposed relocation plan. Fruit traders had reiterated on different occasions strong reservations about the proposed relocation of YMT Fruit Market to CSW Phase 2 site; and they considered that the proposed relocation site would cause serious traffic problems and operational conflicts. Hence, the decision not to take forward the proposed relocation at that juncture. |
| (b) [for FHB and AFCD] | According to paragraph 4.8, in May 2011, FHB, in consultation with AFCD, decided that the Cheung Sha Wan Food Market Phase 2 site would be released for residential development. Had an appropriate alternative site been identified when the decision was made? | After the Steering Committee meeting in June 2011 where the decision had been taken to release the CSWWFM Phase 2 site, FHB, in conjunction with AFCD, started to look for an alternative site to reprovision YMTFM. An inter-departmental meeting was convened by FHB on 30 August 2011 to discuss the requirements conveyed by AFCD to PlanD on 1 August 2011. Following site search and site visit, a preliminary alternative site at Kwai Chung was identified in October |
### Response to the Public Accounts Committee on Chapter 2 of the Director of Audit’s Report No. 66

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<td><strong>(c)</strong></td>
<td>[for FHB and AFCD]</td>
<td>According to paragraph 4.9, in October 2011, an alternative site at Kwai Chung was identified. AFCD’s initial assessment confirmed the potential of the site for accommodating YMTFM, subject to a proper market design to overcome the area limitation and securing the support of fruit traders. Had the Administration started work immediately on the market design and on securing the support of fruit traders with a view to commencing the relocation project as soon as possible? If no, why?</td>
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<td><strong>(d)</strong></td>
<td>[for FHB and AFCD]</td>
<td>According to paragraph 4.2, YMTFM had become outdated and the Executive Council approved as early as in 1969 that it should be reprovisioned and moved to a different location. However, according to 2011. Follow-up actions have been taken by FHB and AFCD subsequently.</td>
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<td><strong>[for FHB and AFCD]</strong></td>
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<td>paragraph 4.10, in October 2012, a meeting of the Administration's Social Community and Manpower Policy Group under the Chief Secretary for Administration's Office decided that there was no urgency to proceed with the relocation exercise. Why? Has the advice of the Executive Council been sought on the issue? If no, why not?</td>
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<td>decided that there was no urgency to proceed with the relocation for the time being. A decision not to pursue the reprovisioning exercise at all has not been made.</td>
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<td>Since October 2012, meetings have been held from time to time among FHB, AFCD and other relevant government departments (including the Lands Department, the Home Affairs Department, the Transport Department, the Police and the Highways Department) on measures to mitigate environmental nuisance around the YMTFM. Concerted efforts have been made to making the best use of land resources available through short term tenancy (STT) to this end. The Administration has plans to enlarge the aggregate area of the two existing STT sites and provide one more STT site, thus making available a total area of about 8,940 m² (i.e. an increase of 4,470 m²) for meeting the operational needs of the trade and mitigating the environmental nuisance caused to the neighbouring community. Time is required for addressing stakeholders’ views and resolving local objections in taking forward the measures.</td>
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<td>FHB and AFCD would continue to monitor closely the effectiveness of the measures that have been or will be put in place for mitigating the environmental nuisances posed by the operation of YMTFM to its neighbourhood, and keep in view the need for further enhancement.</td>
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<td>According to paragraph 4.11, in March 2015, a consultancy study found</td>
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|   | In January 2016, an inter-departmental meeting involving FHB, AFCD,
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<th>(g) [for FHB and AFCD]</th>
<th>According to paragraph 4.13, FHB and AFCD had been liaising with the district and the trade, and the Administration would continue to liaise with the trade on the practical requirements of the reprovisioned market</th>
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<td>Although it was decided in October 2012 that there was no urgency to proceed with the plan for relocating YMTFM (to the Kwai Chung site), AFCD continued to liaise with the trade on the practical requirements of</td>
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that the site at Kwai Chung could be considered for relocating YMTFM. However, according to paragraph 4.12, in January 2016, the site was released for other competing uses and a candidate site in Tsing Yi (which would have to be enlarged through reclamation prior to relocation) was being considered. Given that the Kwai Chung site had been found to be an appropriate relocation site, why was it released when an appropriate alternative site had yet to be identified? Does the Administration have a definite plan and timetable for the reprovisioning of YMTFM? If no, why?

DEVB, PlanD and other relevant bureau and departments agreed that, as there was no concrete programme for the relocation of YMTFM to the Kwai Chung site and there were competing uses for the site (columbarium development (with part of the site already earmarked for that purpose) and barging point for construction materials for another part of the site), the Kwai Chung site should be released for other uses and an alternative site should be identified for possible relocation of YMTFM. The inter-departmental meeting agreed to further explore the preliminary suitability of another possible site on Tsing Yi for the relocation of YMTFM, among other facilities, through an engineering feasibility study should the need for using the site for the relocation of such facilities be confirmed.

Unless a site is confirmed to be technically feasible and a decision to proceed with the relocation project has been made, there is no basis for AFCD to proceed to the stage of formulating an action plan and a time table and consulting the fruit trade and other stakeholders on the relocation project.

Bureaux and departments would continue to work with each other in exploring a possible site for reprovisioning YMTFM and keep in view the progress of the possible site at Tsing Yi.
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<td><strong>in terms of size, facilities and other needs; and when more information has been obtained, a suitable site would be identified to cater for the needs of the trade. For how long had the liaison been conducted? What is the present position?</strong></td>
<td><strong>the reprovisioned market in terms of size, facilities and other needs. Under FHB’s consultancy study which commenced in February 2012, for instance, the consultant met with the trade to tap their feedback. AFCD has also continued conducting regular surveys to update the information including distribution of stalls, staff population, vehicle quantity, and throughput of YMTFM etc.</strong></td>
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<td><strong>According to paragraph 4.14, during 2007 to 2013, a total of 1 533 complaints (e.g, about obstructions and noise) in relation to YMTFM were lodged with various government departments. What were the figures for 2014 and 2015? Has there been an increasing trend?</strong></td>
<td><strong>Pending confirmation from departments concerned, there were 307 and 300 complaints in relation to YMTFM in 2014 and 2015 respectively.</strong></td>
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| *(h) [for AFCDF]**  
**According to paragraph 4.15, the Administration had plans to enlarge the aggregate area of the two existing short term tenancy sites at YMTFM and provide one more short term tenancy site for meeting the operational needs of the trade and mitigating the environmental nuisances caused to the neighbouring community. When will the plans be implemented? To what extent will the operational needs of the trade be met and the environmental nuisances mitigated by the enlarged area? Will the implementation of the Administration's plans make it harder to relocate the Market?** | **As set out in the meeting records of the Social Community and Manpower Policy Group in October 2012, FHB was tasked to work with the Yau Tsim Mong District Council to mitigate the environmental nuisance around YMTFM. The relevant STTs may be terminated by giving prior notice, and this fact alone does not add to the complexity of relocating YMTFM. The three short term tenancies referred to in the discussions back in October 2012 had since been put in place. As regards the arrangements for the new term, the Government is currently listening to the feedback from the trade and resolving the local objections. As shown by the combined size of the STT sites, the available area has been doubled, which helps better meet the operational needs of the trade and mitigate** |
| *(h) [for FHB]**  
**and (i) [for AFCDF]** |  |
### Response to the Public Accounts Committee on Chapter 2 of the Director of Audit’s Report No. 66

| (i) | [for FHB] and (j) [for AFCD] | According to paragraph 4.20(c), a review of AFCD markets conducted in 2003 concluded that the Fish Marketing Organization ("FMO") markets should be separately reviewed. However, according to paragraph 4.26, only one of the seven FMO markets (i.e. the Kwun Tong Fish Market) was reviewed in 2011 and the other six markets had not been reviewed, notwithstanding that the six markets included three which had a considerable decrease in throughput after 2003. Why were they not reviewed? What is the timetable to conduct a comprehensive review of all FMO markets? | the environmental nuisance. The operations and management of FMO markets are regularly monitored and reviewed by AFCD on the advice of a statutory advisory board, the Fish Marketing Advisory Board. We will conduct a comprehensive review on throughput in 2016-17. |
| (j) | [for FHB] and (k) [for AFCD] | According to paragraph 4.27, while the 2011 review indicated that the proposed relocation of the Kwun Tong Fish Market would proceed, as at March 2016 a suitable relocation site had still not been identified. What is the present position? | Since 2010, FHB and AFCD have been responding positively to the suggestion of PlanD to relocate the Kwun Tong Fish Market (KTFM) within the Comprehensive Development Area (CDA) in Yau Tong Industrial Area. At an inter-departmental meeting in May 2013, a request was put to, and accepted by, FHB and AFCD to release the reprovisioned site on the then CDA site, to facilitate the residential development, amongst others, on the site. In February 2014, this was endorsed by the Committee on Planning and Land Development. At an interdepartmental meeting in January 2016, a request was put to, and accepted by, FHB and AFCD that the relocation of KTFM to a possible site on Tsing Yi should be further explored. |
| (l) | According to paragraph 4.31, as early as 1994, PlanD commented that the continued operation of the Cheung Sha Wan Vegetable Market at the Cheung Sha Wan sites would be a misuse of valuable land. In 1998, the relevant areas were zoned for residential use. However, according to paragraph 4.33, AFCD had no plan of relocating the Market at that time. Why didn't AFCD plan to relocate the Market to optimize land use? | In 1994, AFCD and the Marketing Advisory Board overseeing VMO considered in-situ market expansion utilizing adjacent government land should be the way forward, right after extension of its lease to 30 June 2047 passed through the departmental circulation stage without any objection from any bureau or department. |
| (m) | According to paragraph 4.32, contrary to PlanD's advice in 1994, two more sites at Cheung Sha Wan were let to VMO in 1997 and 2011 for use by the Cheung Sha Wan Vegetable Market. Does the Administration agree that this had aggravated the problem of misuse of valuable land? | The allocation of the two additional sites was essential for supporting the operational efficiency and business improvement of the CSW Vegetable Market at that time. These sites could be released back to the Government if and when they become surplus to the operational requirements of the CSW Vegetable Market. It is not considered that this had aggravated the problem of misuse of valuable land. |
| (n) | According to paragraph 4.36, during 2005-2006 to 2014-2015, the vegetable throughput of the Cheung Sha Wan Vegetable Market decreased significantly by 40%. However, according to paragraph 4.35, the required area of the relocation site for the Market was 32% larger than the existing total site area. Why? Does the Administration agree that the "throughput to land areas" ratio of the relocated market will be decreased, which is not conducive to the optimization of land use? | AFCD estimated the site requirements on the basis of operational needs (including suppressed needs under the current constraint), taking into account possible improvement to the existing operation. For example, at the moment, the CSW Vegetable Market does not have sufficient space to accommodate all wholesalers and some of them have to operate on vehicular passageways or are restricted to operating hours shorter than others. According to Note 27 of the Audit Report (see page 54), the proposed replacement site at Tat Yeung Road is irregular in shape, surrounded by highways / flyovers with high traffic volume, adjacent to an LPG |
### Response to the Public Accounts Committee on Chapter 2 of the Director of Audit’s Report No. 66

| (k) [for FHB] and (o) [for AFCD] | According to paragraph 4.38, the Housing Department had commented that the housing project could only be completed around five years after the relocation of the Cheung Sha Wan Vegetable Market. What is the present position? When will the relocation be completed? | installation posing potential hazards (thus necessitating mitigation measures such as buffer area), above drainage reserve (thus necessitating measures to make way for maintenance works when required) and in lack of infrastructure. Hence, despite its stated gross area of some 26,100 m², that site can only yield 5,880 m² of trading floor at best, after meeting various land, planning and construction constraints. This is 13.5% less than the existing trading floor area of 6,800 m² at the Cheung Sha Wan Vegetable Market.

As transpired from the recommendations of the consultancy study which had been formulated based on its consultations with the trade, the operational requirements of VMO, and the limitations of the replacement site identified, the AFCD’s requirement turns out to be a prudent assessment on which the site search exercise is based.

Moreover, the estimated requirements are only intended as a starting position to facilitate site search. AFCD is always prepared to work with the relevant departments to make use of any reasonably suitable sites identified.

Notwithstanding the limitation of the Tat Yeung Road site, FHB and AFCD have been working diligently, in conjunction with other relevant bureaux and departments, to ascertain technical feasibility through refining the project definition and commencing various technical studies. The inter-departmental meeting in January 2016 agreed that should it turn |
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<th>(p) [for AFCD]</th>
<th>According to paragraph 4.40, the “throughput to land areas” ratio of the North District Temporary Agricultural Products Market was only half of that of the Cheung Sha Wan Vegetable Market. According to paragraph 4.42, the North District Agricultural Products Market had stayed “temporary” for more than 26 years without improving its facilities. Why hadn’t the Administration taken measures to optimize the use of the site during the past 26 years? What is the Administration’s future plan in this regard?</th>
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<td>(l) [for FHB]</td>
<td>According to paragraph 4.44, 48 (56%) stalls in the Cheung Sha Wan Temporary Poultry Market had been vacant for more than five years.</td>
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<th>and (q) [for AFCD]</th>
<th>However, according to paragraph 4.46, the proposed relocation of the Market to Sheung Shui had been put on hold pending conclusion of a consultancy study on the way forward for the live poultry trade in Hong Kong. What is the present position?</th>
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<td>and (r) [for AFCD]</td>
<td>The Government introduced (a) a voluntary surrender scheme in 2004/05 and (b) a buyout scheme in 2008. As a result, the number of wholesalers operating in CSWTWPM was reduced from 86 prior to the introduction of the first voluntary surrender scheme to 23 at present. To tie in with the policy to reduce the number of live poultry wholesalers, AFCD has stopped leasing out any vacant stalls at the wholesale market to new and existing tenants since then. In order to enhance the bio-security measures at CSWTWPM, AFCD converted in 2013 some vacant wholesale stalls into additional overnight stocking areas to further reduce the AI risk. A consultancy study on the future of the live poultry trade in Hong Kong (including the question of whether the trading of live poultry remains appropriate in present-day circumstances) is currently underway. FHB plans to consult the public on the consultants’ recommendations within 2016/17. Whether there is a need to reprovision the market or otherwise would become clearer when the outcome of the consultation exercise is known. AFCD has prepared the preliminary design and included the relocation project in the Capital Works Programme. It will take the project further as and when a decision to proceed is made.</td>
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<td>(m) [for FHB] and (r)</td>
<td>According to paragraph 4.45, stalls at Cheung Sha Wan Temporary Poultry Market were open-sided structures and any contaminants in the Market might be carried a long way by wind. Moreover, components of According to EPD, asbestos-containing materials pose little health risk as long as they remain intact and undisturbed. Should the condition of the corrugated asbestos cement sheets deteriorate, ArchSD will hire</td>
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<td>(b) [for FHB and AFCD]</td>
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hygiene concerns thus arising are minimal, if any. Requiring these marine fish products to be landed and wholesaled at FMO wholesale fish markets would only impose unnecessary burdens on the trade without any environmental or consumer benefits. That said, AFCD notes the legal issue, and will, in consultation with the Department of Justice, address it by taking measures to help FMO perform its roles and functions effectively and efficiently including updating the legal framework.
### Response to the Public Accounts Committee on Chapter 2 of the Director of Audit’s Report No. 66

| (c)  | [for FHB and AFCD] | According to paragraph 5.9(a), both the Vegetable Marketing Organization ("VMO")'s Cheung Sha Wan Vegetable Market and the nearby AFCD's Cheung Sha Wan Food Market are carrying out wholesale marketing of vegetables. During 2003-2004 to 2014-2015, throughput of the VMO market had decreased by 48%, indicating that it might have surplus capacity. What actions will be taken to minimize duplication of public resources and optimizing the land uses? | AFCD notes Audit’s point on the legal issue, and will, in consultation with DoJ, address it by taking measures to help the VMO perform its roles and functions more effectively and efficiently, including updating the legal framework. |
| (d)  | [for AFCD] | According to paragraph 5.9(b), VMO conducts pesticide residual testing for traders in its wholesale market. Such service is not currently available to traders in wholesale markets of AFCD. Will the AFCD consider providing such service at its wholesale markets? If no, why? | The VMO specializes in fresh leafy vegetables supplying retail wet markets, while wholesalers at AFCD’s CSWWFM offers mainly contract supply services to catering outlets. The clientele are different though there may be some overlap. In fact, the two markets complement each other with different types of vegetables and services offered. |
| (d)  | [for FHB] and (e) [for AFCD] | According to paragraph 5.9(c), the lands of FMO and VMO markets are scarce resources. Use of the lands for purposes other than originally intended needs strong justifications against competing demands. According to paragraph 5.6, activities undertaken by FMO and VMO not intended at the time of their setting up included live marine fish trading in FMO markets, and sale of premium vegetables to household customers. One of the roles of VMO is to help local farmers market their produce. VMO has a role to help small local farmers who are less well-resourced, lack bargaining power and whose production volume does not make it viable for them to make their own logistics and direct sale arrangements. This should not be restricted to just wholesaling. | }
and imported vegetables by the VMO market. Are there strong justifications for FMO and VMO to conduct such activities? Should any of such activities be more appropriately conducted by the private sector?

Regulation 15(a) of the Agricultural Products (Marketing) Regulations (Cap. 277A) stipulates that the Director may (i) provide such services as he may consider necessary or desirable for the improvement of agriculture or of the marketing of agricultural products; and (ii) engage in any activity which may improve or assist in the improvement of agriculture. We consider that the direct sale of premium vegetables to household customers is in line with this Regulation.

In view of the fact that the supply and quality of local vegetables may fluctuate dramatically depending on weather conditions, it is not easy to attract the private sector to take part in the sales and promotion of local vegetables.

AFCD in conjunction with FMO monitor and review regularly the use of FMO’s market areas to meet the changing needs of the fisheries trade and allocates accordingly the areas to uses essential to the wholesaling of marine fish and other fisheries products.

As stipulated in section 11(2) of the Marine Fish (Marketing) Ordinance, Cap. 291, the Organization may provide such services as may be deemed necessary for the improvement of the marketing of fishery products, including live marine fish.

To cope with the decreasing trend in the landing of fresh marine fish at FMO markets and the increasing demand for wholesale marketing facilities for live marine fish as well as to optimise the utilisation of
| (e) [for FHB] and (f) [for AFCD] | According to paragraph 5.10, the Administration was considering the results of a consultancy study on the roles and functions of fresh food wholesale markets in Hong Kong. What is the present position? | The consultancy study was completed in March 2015. A submission is scheduled to be put to the Steering Committee on Land Supply on 8 July 2016. |
Chapter 3
of the Director of Audit’s Report No. 66

Retrofitting of barrier-free access facilities for grade-separated walkways

Questions raised and information required

Questions to be responded by the Highways Department

Q1: Paragraph 7 on Page v — Significant time and cost overrun in implementing retrofitting works items

In one case, the project expenditure for the retrofitting works for two subways had increased by 16% to $67 million due to additional works for utility diversion. In the other two retrofitting projects, the completion dates had been deferred from the original completion dates by 1,088 and 730 days respectively due to interfacing with the nearby water mains replacement works. Would the Administration please advise whether there are any new policies / measures to:

(a) avoid reoccurrence of the problem that the need for utility diversion was only revealed after awarding the works contracts?

(b) adopt the Audit Commission’s recommendation, if possible, of identifying the need for utility diversion in feasibility study reports to endeavour to find solutions before awarding the works contracts?

A1: Details of the three projects mentioned in Paragraph 7 on Page v of the Audit Report are as follows:

(i) The first project which was mentioned with cost overrun is Public Works Programme (PWP) Item No. 143TB “Improvement to pedestrian subway system at Kwai Fuk Road roundabout”. The Highways Department (HyD) had explained to the Audit Commission that the main objective of the project is to improve the existing pedestrian subway system, including construction of a new subway barrel and its lifts connecting to the ground level. The works for
construction of new lifts only contributed to about 18% of the approved project estimate. There was an increase in the overall project cost due to various unforeseeable factors (such as higher-than-expected tender prices), thus increasing the approved project estimate by 16% to $67 million (i.e. an increase of $9.3 million). The increase in the costs for the lifts only constituted a small portion of that $9.3 million.

The Audit Report mentioned that the increase in approved project estimate of $9.3 million was partly due to additional works for utility diversion. The HyD clarified that the cost overrun for these lift construction works (about $0.5 million, about 5%) was caused by the various unforeseeable factors (such as higher-than-expected tender prices) mentioned above, but not additional works for utility diversion.

(ii) The second project which was mentioned with about 1,000 days of delay is PWP Item No. 153TB “Enhancement of footbridges in Tsim Sha Tsui East”. The scope of 153TB includes the refurbishment of two footbridges in Tsim Sha Tsui East, apart from the provision of 3 lift towers and 6 lifts. The main objective of this project is to enhance the tourism-supporting facilities in that area. As mentioned in paragraph 2.11(b) of the Audit Report, the whole project was delayed due to the contractor’s delay in the procurement of materials for various sections of the contract. During construction, the HyD met the contractor’s management many times, urging them to complete the works timely and properly. At the same time, the HyD also deducted liquidated damages from the contract payment according to the contract provisions and reflected the contractor’s unsatisfactory performance in their performance reports.

The delay of this project was not caused by additional works for utility diversion.

(iii) The third project which was mentioned with about 700 days of delay is the provision of lifts to an existing footbridge across King’s Road at the junction of North View Street and North Point Road in North Point. As stated in the HyD’s response in Appendix B of the Audit Report, the HyD had all along been liaising with the Water Supplies Department (WSD) with a view to tendering the lift retrofitting works
after confirming the completion date of the WSD’s works. Subsequently, with the delay in the completion of the WSD’s works contract, the HyD’s lift retrofitting works project unavoidably suffered from a consequential delay. Having noted the difficulties encountered in the WSD’s works due to unfavourable ground conditions and stringent traffic requirements (i.e. traffic lanes could not be closed during normal working hours on weekdays), the HyD had instructed its contractor to implement mitigation measures to create more work fronts at the concerned road section to reduce the delay to the works, and requested the utility undertakers to change the diversion routes so as to shorten the time needed for carrying out works on the road.

Paragraph 4 of Case 2 of the Audit Report mentions that in Audit’s view, for works requiring utility diversions (as identified in feasibility studies) in implementing a works project in future, the HyD needs to endeavour to find solutions before letting out the works contracts. In this regard, the HyD has all along been maintaining close liaison with utility undertakers during the planning and design stages of each retrofitting item to assess the scope and time required for modification or diversion of existing underground utilities, and coordinate the arrangement for such diversion works to ensure smooth implementation of each retrofitting item. Nevertheless, when taking forward the items, the HyD would inevitably encounter unforeseeable challenges and difficulties in implementing the works, such as the variations between the actual condition and utility undertakers’ assessed condition of underground utilities, which would affect the progress of works and project costs. The HyD would endeavour to overcome these challenges and difficulties and adopt appropriate measures to minimise the related impact, including enhancing the design schemes and construction processes where appropriate and practicable with a view to completing the lift retrofitting works as soon as possible.

In response to the Audit Recommendations, the HyD will remind its staff and consultants that they should endeavour to find feasible solutions for diversion of existing utilities before awarding works contracts. If the works subsequently entail utility diversion or there are other works sites in the vicinity, the HyD will continue to assess in detail the possible impact of these factors on the lift retrofitting works and the time required for resolving these issues.
The HyD will endeavour to look for the optimal solution for coordinating the retrofitting and utility diversion works, so as to make a more accurate estimate of the completion date.

Q2 : Paragraphs 2.6, 2.7, 2.10, 2.12, 2.19 and 2.25 – Slow progress, significant time and cost overrun in implementing retrofitting works items

The Transport and Housing Bureau (THB) informed the Legislative Council (LegCo) Panel on Transport in June 2011 that the majority of the retrofitting works for barrier-free access facilities (BFA) for grade-separated (GS) walkways under the 2011 Retrofitting Programme would be completed by 2017-2018. These works formed part of the 2011 Retrofitting Initiative for providing barrier-free access facilities to the disabled. Among the 184 walkways found to be feasible for retrofitting works, as of December 2015, the retrofitting works for only 60 (33%) had been completed. The retrofitting works for 17 (9%) were under detailed design and public consultation and 13 (7%) had not commenced. The Audit Commission noted that there had been significant time and cost overrun in implementing the retrofitting works items. In some cases, the need for utility diversion was only revealed after awarding the works contracts. On the other hand, the HyD’s feasibility studies found that 95 walkways were not feasible for retrofitting works. However, the Civil Engineering and Development Department (CEDD)’s feasibility studies found that it was technically feasible to carry out retrofitting works for these three walkways by adopting alternative solutions. In this connection, whether HyD agrees that:

(a) the Administration will not be able to complete all relevant retrofitting works according to the target set in 2011 (i.e. by 2017-2018). What measures are to be implemented to expedite the progress of these retrofitting works to ensure those disabled who need to use these facilities would not be affected?

(b) what is the latest progress for those retrofitting works which have not yet been completed?
(c) what are the Administration’s measures to avoid significant time and cost overrun when implementing the retrofitting works in future?

(d) According to Cases 5 to 7 (Paragraph 2.19), the HyD’s technical feasibility studies under the 2001 Retrofitting Initiative found that it was infeasible to carry out the retrofitting works for a footbridge in Sham Shui Po, a footbridge in Wan Chai and a subway in Wan Chai, whereas the CEDD later found in its feasibility studies conducted under the 2012 Expanded Programme that it was technically feasible to carry out the works for these three walkways by adopting alternative solutions. What are the reasons for the different recommendations given by HyD and CEDD?

A2(a)-(c): As at end 2015, out of the 184 GS walkways mentioned in the Audit Report as feasible for retrofitting works, 60 items had been completed (including 26 items completed under the “Original Programme” of the Universal Accessibility Programme (UAP) as at end 2015). The HyD is now implementing the remaining 124 items spreading over all districts under the “Original Programme”. Of these 124 items, the works of 94 items have commenced, while the works for the remaining items will commence as soon as possible. As stated in paragraph 2.16(a) of the Audit Report, the HyD has stated that it will expedite actions to complete the remaining retrofitting works under the 2011 Retrofitting Programme, so as to achieve the completion of about 80% of the 150 items under the “Original Programme” (i.e. 122 items including the 26 items completed as at end 2015) in phases by 2018 as stated in the 2016 Policy Address.

As mentioned in our reply to Q1, at the planning and design stage, the HyD would conduct public consultation and site investigation for each item. Since diversion of existing utilities would often be required, the HyD would maintain close liaison and co-ordination with the utility companies and the responsible parties of the other works or development projects to ensure smooth implementation of each item. Nevertheless, there would inevitably be unforeseeable challenges and difficulties in implementing
the works, such as longer-than-expected time to handle different public opinions during the design stage. Moreover, the general crowded condition of underground utilities and the variations often observed during construction between the actual condition and utility undertakers’ recorded condition of underground utilities would affect the progress of works and project costs. The HyD would endeavour to overcome these challenges and difficulties, and adopt appropriate measures to minimise the related impact.

In response to the Audit Recommendations, the HyD will remind its staff and consultants that they should endeavour to find feasible solutions for diversion of existing utilities before awarding works contracts. If the works subsequently entail utility diversion or there are other works sites in the vicinity, the HyD will continue to assess in detail the possible impact of these factors on the lift retrofitting works and the time required for resolving these issues. The HyD will endeavour to look for the optimal solution for coordinating the retrofitting and utility diversion works, so as to make a more accurate estimate of the completion date.

The HyD has been exercising stringent cost control. For the 26 items completed as at end 2015 under the UAP, all were completed within their original approved project estimates without cost overrun.

The HyD will continue to use its best endeavours to take forward the works in accordance with established policies and relevant guidelines.

A2(d): In view of the fact that there have all along been a large number of retrofitting works items, the HyD has been endeavouring to implement the works with optimal use of available resources. In this regard, when reviewing the technical feasibility of these retrofitting works items in the past, the HyD would exclude those items which were considered technically infeasible due to factors such as site constraints on a case-by-case basis, in order to concentrate the use of resources for implementing items that were technically feasible. Subsequently, the Civil Engineering Development Department (CEDD)’s feasibility studies
conducted under the 2012 Expanded Programme (i.e. the Expanded Programme under the UAP) considered that parts of the retrofitting works of some items would be technically feasible after taking into consideration the actual site conditions and after adopting appropriate modifications to the project scheme.

For the footbridge in Case 5 in the Audit Report (connecting to the main destination Chak On Estate through Tai Woh Ping Road), as stated in the Audit Report, the HyD at that time considered that the existing Tai Woh Ping Road connecting the footbridge to Chak On Estate was too steep and large-scale site formation works would have to be carried out to make the road barrier-free. There was however insufficient space for such works. Subsequently, the CEDD carried out site investigation under the 2012 Expanded Programme and considered that the provision of a lift and a ramp would still be beneficial for the pedestrians to cross Tai Po Road although the steepness of Tai Woh Ping Road still could not be improved under this project (but pedestrians would still need to access Chak On Estate via the existing Tai Woh Ping Road). The CEDD hence considered the retrofitting proposal feasible and obtained agreement from the relevant District Council (DC).

For the footbridge across Gloucester Road and Percival Street in Case 6 in the Audit Report, as stated in the Audit Report, the HyD at that time considered the lift retrofitting works at Exit D were infeasible because the proposed lift location overlapped with two underground sewers and there was insufficient space to divert the sewers. It was also considered infeasible as reprovisioning a staircase after retrofitting a lift at the same location would extend the length of staircase at Exit D, making the adjacent footpath too narrow. Under the 2012 Expanded Programme, the CEDD reviewed the scheme of retrofitting of lift and reprovisioning of staircase at the same location after demolishing the existing staircase at Exit D. Based on the experience gained in implementing various retrofitting works over the past few years, CEDD made appropriate modifications to the scheme of retrofitting of lift and reprovisioning of staircase. CEDD then considered the
retrofitting works feasible and obtained agreement from the relevant DC.

For the subway near Sports Road in Case 7 in the Audit Report, as stated in the Audit Report, the HyD at that time (in 2009) considered that since a lift could not be installed at Exit B, retrofitting works for the subway were considered infeasible. Under the 2012 Expanded Programme, the CEDD reviewed the original retrofitting proposal and considered that implementing lift retrofitting works at Exits A and C would still be beneficial to the pedestrians to cross Canal Road East although it was still not feasible to carry out retrofitting works at Exit B. The CEDD then considered the proposed scheme feasible and obtained agreement from the relevant DC.

Over the years, the HyD has been retrofitting BFA facilities at GS walkways in accordance with established policies and relevant guidelines. However, with developments that took place in recent years, the environment around public walkways, such as the provision of at-grade crossings or BFA facilities nearby, might have changed. In response to the Audit’s findings (see paragraph 4.11 of the Report) that 328 walkways had not been provided with BFA facilities as of April 2011, as well as the Audit Recommendations, the HyD will review the latest information on BFA facilities of existing GS walkways, and examine the feasibility of retrofitting such facilities for those GS walkways currently without BFA facilities where appropriate. The HyD would report the results to the Legislative Council (LegCo) and relevant DCs when appropriate.

Q2 (cont’d): Page 18 Case 1 - Works delay due to interfacing problems with other works projects at the same location

Owing to the interfacing of the lift retrofitting works with a nearby water mains project under delay, the concerned lift could only commissioned in 20 months after commissioning of the lift at the other end of the footbridge. The project cost had increased by $6.72 million (from $17.66 million to $24.38 million). What measure would be taken by the HyD to
prevent recurrence of similar interfacing problems between the retrofitting works and other public works project in future?

A2 (cont’d): Please refer to Appendix B of the Audit Report and our reply to Q1(iii) for the details of works of the case mentioned in P.18 of the Audit Report.

Regarding the interface of retrofitting works with other public works projects, at the planning and design stage, the HyD would conduct detailed site investigation for each item. If diversion of existing utilities is required, the HyD would maintain close liaison and co-ordination with the utility companies and the responsible parties of the other works or development projects to ensure smooth implementation of each item.

If the works entail utility diversion or there are other works sites in the vicinity after commencement of works, the HyD will assess in detail the possible impact of these factors on the lift retrofitting works and the time required for resolving these issues. The HyD will endeavour to look for the optimal solution for coordinating the retrofitting and utility diversion works.

The HyD will write to remind its staff and consultants of the above matters in relation to the interface of retrofitting works with other public works projects.

Q3: Page 20 Case 2, Paragraphs 1 and 3

What policy could be implemented to enhance the accuracy of recording the actual numbers, extents and locations of utilities by the utility undertakers to prevent reoccurrence of the problems similar to the case under 6167TB for which it had taken several years to work out the utility diversion proposal with the utility undertakers for gas mains, power cables and tele-communication cables, resulting in significant time overrun?

A3: Records of underground utilities are under the policy portfolio of the Development Bureau. Regarding the said subject, there were detailed discussions in the past among three works departments and five utility undertakers (including the HyD, the Drainage Services Department, the WSD, CLP Power Hong Kong Limited,
Hongkong Electric Company Limited, Hong Kong and China Gas Company Limited, Hutchison Global Communications Limited and PCCW Limited). Studies were also undertaken by an independent consultant to investigate the feasibility of establishing a comprehensive and centralised database of underground pipelines. After reviewing the technical conditions required for the establishment of the database and taking into account the views of stakeholders (including works departments and utility undertakers), the independent consultant recommended that the present electronic data platform for underground utilities was the best option. This platform commenced operation in 2004. The participating organisations appropriately maintain their own underground utility records according to unified rules and standards. Through this jointly-built electronic platform, timely responses are given to enquiries on particular locations raised by relevant works departments or utility undertakers, and data are shared among the mentioned parties where necessary, thus serving the similar function as a centralised database.

Furthermore, since the underground utilities in Hong Kong are increasingly crowded, the HyD has conducted a review on the existing database of underground utilities in 2013. Taking into account the technical conditions required for the establishment of the database and the views of stakeholders (including works departments and utility undertakers), the HyD is of the view that it is still appropriate to continue adopting the current operation mechanism. Nevertheless, the HyD and the stakeholders will continue to review the operation of the aforementioned electronic platform and make enhancement, and will also invite new major operators in the market to join the platform.

Furthermore, as mentioned in our reply to Q1, in response to the Audit Recommendations, the HyD will remind its staff and consultants that they should endeavour to find feasible solutions for diversion of existing utilities before awarding works contracts. If the works subsequently entail utility diversion or there are other works sites in the vicinity, the HyD will continue to assess in detail the possible impact of these factors on the lift retrofitting works and the time required for resolving these issues. The HyD will endeavour to look for the optimal solution for coordinating the retrofitting and utility diversion works, so as to make a more accurate estimate of the completion date.
Q4: Page 20 Case 2 Paragraph 2

According to report, the Contractor submitted claims for the works items due to delay in retrofitting works for the subway under 6101TX. What is the amount of this cost claim and the status? Is there any other works item being claimed by the Contractor due to delay? If yes, what are the details?

A4: Regarding the contractor of the lift retrofitting items for the subway under block allocation Subhead 6101TX mentioned in Case 2 on Page 20 of the Audit Report, the contractor had notified claims relating to delay or additional costs of 11 retrofitting works items (including Case 2). The HyD and its consultants were handling the claims in accordance with the contract provisions. Since the Contractor has not yet submitted specific cost figures for the claims, detailed information of the claims cannot be provided at this moment.

Q5: Paragraph 3.10 - the pedestrian flow of some walkways nominated under the 2012 Expanded Programme was relatively low

The 18 DCs were each invited to nominate three walkways from the List of Public Proposed Walkways (PPW List) for lift retrofitting works. The PPW List provided to Tuen Mun and Sha Tin DCs contained 28 and 21 walkways respectively, the List provided to Central and Western, Sham Shui Po and Sai Kung DCs each contained 4 walkways, and that to Islands DC only contained 1 walkway. As a result, Sham Shui Po and Islands DCs together nominated three walkways outside the List for lift retrofitting works. Moreover, an elevated walkway in Southern District and a footbridge in Sai Kung District had peak-hour pedestrian flow of 69 and 112 respectively; whereas a footbridge in Yau Tsim Mong District and a footbridge in Kwun Tong District had peak-hour pedestrian flow of above 5,000 respectively were not nominated. Based on the above, whether the HyD agrees that, since there exists a large difference in the pedestrian flows of walkways nominated by different DCs, the public resources for implementing the lift retrofitting works for the 3 walkways nominated by DCs were not spent in the most cost-effective
When this Government launched the UAP in August 2012, it was made clear that the Government would retrofit lifts progressively for all walkways where necessary and technically feasible. The policy intent is that regardless of pedestrian flow, the Government will retrofit lifts for all GS walkways where technically feasible. Expected usage may be a factor taken into account by the DCs in selecting the priority items. The public reaction to the UAP was overwhelming. Between August and October 2012, there were suggestions for lift installations at about 250 public walkways. In the light of the great demand, the Government adopted a model that was close to the views of the public by collaborating with the 18 DCs, and invited each DC to prioritise the new items proposed by the public in their districts in the first half of 2013, and select three public walkways for priority implementation (the Expanded Programme).

To assist the DCs in selecting priority items, the HyD and the CEDD provided DCs with the number of suggestions received and pedestrian flow information for each of these public walkways to facilitate their overall consideration of priorities. The HyD understand that when selecting items for priority implementation, the DCs would usually consider pedestrian flow, number of suggestions received, existence of existing facilities for the elderly/disabled nearby, the availability of alternative BFA facilities, development status of the community nearby, etc. Some DC members also suggested using benefits of the works, good use of public funds and effective use of resources as criteria for selecting priority items for implementation. The Government respects the decisions made by each DC after thorough discussion for the implementation of retrofitting items. After the DCs have selected the priority items, the HyD and the CEDD would conduct technical feasibility studies, investigation and detailed design for these priority items, as well as consult the DCs on the design scheme, etc.

To ensure proper use of public funds, the HyD and the CEDD would take forward the items selected by the DCs in a cost-effective manner through an established project management system, designs that cater for the needs of all the stakeholders, a fair tendering system and strict supervision on the quality of works.
Q6: Paragraph 4.10 – Some GS walkways constructed after effective date of Disability Discrimination Ordinance have not been provided with BFA facilities

The Disability Discrimination Ordinance took effect in 1996. The Audit Commission revealed that at least 11 GS walkways constructed and opened for use during the period from 1999 to 2005 were not provided with BFA facilities. Would the HyD please advise:

(a) the reason why those GS walkways constructed and opened for use from 1999 to 2005 were not provided with BFA facilities?

(b) the progress of lift or ramp retrofitting works for these GS walkways?

(c) if the lift or ramp retrofitting works for these GS walkways are not feasible, what remedial measures would be taken by the HyD?

A6: The HyD has all along been retrofitting BFA facilities at existing GS walkways (i.e. public footbridges, elevated walkways and subways maintained by the HyD) where technically feasible and resources permit. Most of the walkways constructed after 1996 and maintained by the HyD have been retrofitted with BFA facilities in accordance with requirements stipulated in the Disability Discrimination Ordinance.

For the 11 walkways mentioned in the Audit Report without BFA facilities, seven of them were not constructed by the HyD but were handed over to the HyD for repair and maintenance after construction. The remaining four walkways were constructed by the HyD but the HyD could not retrieve from the relevant records the reasons of not providing BFA facilities when these walkways were being constructed.

Out of the above-mentioned seven walkways not constructed by the HyD but were handed over to the HyD for repair and maintenance, three have been included in the “Original Programme” under the UAP or other projects for retrofitting works. For the remaining four walkways, the HyD will conduct a review in response to the Audit Recommendations and take
measures to implement retrofitting works after considering the relevant information (including technical feasibility and nearby environment, etc.), and consult the concerned DCs for the retrofitting works.

For the other four walkways constructed by the HyD, one of them has been included in the Original Programme under the UAP for retrofitting works. For the remaining three walkways, the HyD will conduct a review in response to the Audit Recommendations and take measures to implement retrofitting works after considering the relevant information (including technical feasibility and nearby environment, etc.), and consult the concerned DCs for the retrofitting works.

Q7: Paragraph 8 on Page v

The Audit report stated that, the HyD had not issued guidelines for determining whether a public GS walkway is feasible for carrying out lift/ramp retrofitting works. Why the HyD did not issue such guidelines? In response to the recommendation in Audit report, would the HyD issue such guidelines as soon as possible?

A7: Paragraph 8 on page v of the Audit Report states that, the HyD had not issued guidelines on determining whether a walkway is feasible for carrying out lift/ramp retrofitting works.

Over the years, the HyD has been installing BFA facilities at GS walkways in accordance with established policies and relevant guidelines, such as the Transport Planning and Design Manual of the Transport Department and the Structures Design Manual of the HyD. In response to the Audit Recommendations, the HyD will review the existing guidelines and consider whether additional guidelines should be formulated to specify the conditions under which lift/ramp retrofitting works for a public GS walkway would be feasible.
Q8: Paragraph 8 on Page v

Why the CEDD and the HyD have different views on some of the lift retrofitting works, such as the retrofitting works for the 3 GS walkway in Sham Shui Po and Wan Chai as mentioned in the report? What are the justifications adopted by the CEDD to overthrow the decision made by the HyD during the 2001 Retrofitting Initiative that the lift/ramp retrofitting works for these walkways to be infeasible?

What are the details of the “alternative solutions” mentioned in the report?

(This question is the same as question (1) to be responded by the CEDD)

A8: Please refer to our reply to Q2(d).

(The reply to Q2(d) is a coordinated reply of the HyD and the CEDD.)

Q9: Paragraph 12 on Page vi

(a) Information on pedestrian-flow and the nearby facilities for the elderly and Person with a Disability (PWDs) near the walkway, are very essential for the DC’s consideration in nominating walkways for lift retrofitting works. Why did the HyD only provide the above information to 3 (Tuen Mun, Kwai Tsing and Kwun Tong) DCs, so that the remaining 15 DCs could not have sufficient information to consider the feasibility of lift retrofitting works?

(b) On the other hand, why did the CEDD provide the pedestrian-flow information of a footbridge to Wong Tai Sin DC only after the DC had nominated such footbridge for retrofitting works?

(c) Any new policy / measure to rectify the mistakes for insufficient information or late submission of information as mentioned above?
(This question is the same as question (2) to be responded by the CEDD)

A9: To assist the DCs in selecting priority items, the HyD provided DCs with information comprising the pedestrian flow, the number of suggestions received, the layout plan and photos for each of those public walkways to facilitate their overall consideration of priorities. Since the DCs are familiar with the districts’ environment and the local sentiment, through detailed discussion among the DC members, most of the DCs could nominate the priority items for implementation based on the information provided and their understanding of the local situation. If the DCs request for more information during discussion, the HyD will endeavour to cooperate. There were individual DCs (such as Tuen Mun, Kwai Tsing and Kwun Tong) that requested for additional information during the consultation process. The HyD had provided the relevant information upon receiving such requests to facilitate the DCs to nominate the priority items. In response to the Audit Recommendations, the HyD will proactively provide more information to the DCs to facilitate their discussion in the future.

As the main span of the footbridge serves the primary function of the walkway to cross the road, its pedestrian flow should normally be adequate to reflect the level of usage of the walkway (including its entrances/exits) for consideration by the DCs. As regards the case related to Wong Tai Sin DC, the DC had already nominated three walkways for priority implementation based on the information provided by the HyD. Subsequently, when carrying out feasibility study for one of the priority items, the CEDD proposed to demolish a ramp to provide space for the lift retrofitting works. Therefore, the CEDD provided the additional pedestrian flow information for individual ramps and staircases at the DC’s request, in order to confirm that the impact to the public of the demolition works would be minimal.

The Chief Executive announced in the 2016 Policy Address that the implementation of the UAP will continue. From the fourth quarter of this year, the Government will invite the DCs to further nominate not more than three existing walkways in each district for the second phase of the programme. The HyD has started relevant preparatory work, including carrying out preliminary assessment on the technical feasibility of the retrofitting works and
rough estimation of the construction costs, assessing pedestrian flow, and collecting information of existing facilities for the elderly/disabled nearby, the availability of alternative BFA facilities and development status of the community nearby, etc. This would enable the further provision of relevant information of walkways (including the current and estimated future pedestrian flow of the walkway concerned, estimated construction cost, facilities for the elderly nearby and site constraints, etc.) to the 18 DCs when inviting them to select walkways for implementation, so as to facilitate the DCs to determine the priority of implementation with due consideration of pertinent factors (including cost-effectiveness).

In response to the Audit Recommendations, in order to assist DCs’ selection of appropriate items for implementation, the HyD will provide unified information to the DCs when taking forward items of the second phase of the UAP in the fourth quarter of this year.

(This is a coordinated reply of the HyD and the CEDD.)

Q10: Paragraph 17 on Page viii

Would the HyD accept the Audit Commission’s recommendation to re-examine the justifications for not carrying out retrofitting works for walkways found under the 2001 Retrofitting Initiative to be infeasible for such works, and inform LegCo and the related DCs of the examination findings? If yes, what are the details? If not, why?

A10: In response to the Audit Recommendations, the HyD will review the latest information on retrofitting BFA facilities of existing GS walkways, including re-examining whether the justifications of not carrying out retrofitting works previously are still applicable in light of the present circumstances. The HyD will take measures to implement retrofitting works after considering the relevant information (including technical feasibility and nearby environment, etc). The HyD would report the results to the LegCo and relevant DCs when appropriate.

10 June 2016
Replies of the Immigration Department

Reply to Question 1)

(a) At present, for applications processed under the General Employment Policy (GEP) or the Admission Scheme for Mainland Talents and Professionals (ASMTP), the employing company is required to complete the application form (Form No.: ID 990B, please refer to Annex A). It is clearly stipulated in the said form that the employing company is required to state the justifications for employing the applicant in Hong Kong and reasons why the post cannot be filled by locals. The authorised person of the employing company is required to sign the application form to declare that the information given in the form, including the aforementioned written statement, is correct, complete and true, and the company chop should be endorsed in the form. Based on the information provided, the case officers will assess whether the applicant meets the requirement stipulated under the abovementioned two talent admission schemes that the applicant possesses special skills, knowledge or experience of value to and not readily available in Hong Kong. Previously, when handling applications under the GEP, the case officers would assess whether the requirements of the relevant scheme were met based on the written statement of the employing company. On the other hand, for applications submitted under the ASMTP, the employing company is required to provide a separate declaration to confirm that vigorous local recruitment efforts had been made but they were still unable to find locals for the post.

When assessing applications under the abovementioned two admission schemes, apart from requiring the proof to show that the applicant possesses knowledge, experience and skills not readily available locally, the case officers will make comprehensive assessment with reference to the actual circumstances of the application and relevant factors including the market supply and demand for the post. They will, where necessary, make reference to the information of and views provided by the relevant government departments or professional bodies so as to ascertain whether the post should be filled by non-local talent.
However, the Immigration Department (ImmD) agrees that consistency in the manner of assessing the applicant’s knowledge, experience and skills under the abovementioned two talent admission schemes should be maintained. Pursuant to the recommendation by the Audit Commission, the ImmD has issued guideline specifying that the case officers of these two schemes should require the employing company to provide a declaration to confirm that vigorous recruitment efforts had been made but they were still unable to find locals for the post. If necessary, relevant proof will be sought from the employing company so as to ensure that suitable local workers are accorded priority in employment.

(b) One of the assessment criteria under the GEP and ASMTP is that the applicant’s remuneration package (including income, accommodation, medical, other fringe benefits, etc.) should be broadly commensurate with the prevailing market level. When assessing an applicant’s remuneration package, the ImmD will holistically consider a series of relevant factors, including by making reference to market information of various organisations such as median salaries, statistical reports issued by the Census and Statistics Department, the applicant’s seniority / experience, information from online recruitment and human resources platforms, as well as seeking advice from relevant professional bodies, if necessary. In addition, depending on the circumstances of individual applications, the case officers will require the employing company to provide justifications and information so as to ascertain that the remuneration package offered is commensurate with the prevailing market level. In case of inconsistency, the ImmD will refuse the application.

Paragraph 2.6(b) of the Audit Report points out that the salaries of certain approved applicants holding the positions of Information Technology Managers and Accounting / Finance Managers were lower than the median salaries obtained from the relevant websites. However, when assessing if the applicant’s remuneration is broadly commensurate with the market level, the ImmD will not solely rely on the median salaries as a reference, but will as a whole consider a series of related factors holistically, including the applicant’s seniority / experience (the remuneration will generally be directly proportional to seniority / experience); the tenure of employment (the shorter the tenure of employment, say less than 12 months, the lower will be the remuneration); the prevailing situation of supply and demand for the concerned post in the market; as well as by making reference to the market information of different sources, including the statistical reports issued by the Census and Statistics Department, information
from online recruitment and human resources platforms, and also by seeking advice from relevant professional bodies, if necessary. As regards the specific cases pointed out in the Audit Report, the ImmD had revisited the cases and confirmed that the remuneration package for the posts concerned was broadly commensurate with that of the prevailing market level at the time. The ImmD has enhanced internal inspection and briefing in order to ensure that when handling applications, the case officers will duly record the justifications for approval and specify the relevant factors which have been taken into account when assessing an applicant’s remuneration package.

Reply to Question 2)

The ImmD publishes its performance pledges every year. The Director of Immigration and the Immigration Department Users’ Committee (Committee) meet half-yearly to monitor the fulfilment of performance pledges by the ImmD, and also to receive and consider opinions and suggestions on improvement by members of the public in regard to immigration service level. The Committee also reviews the achievement of performance pledges, which cover the scope of services including immigration control, births, deaths and marriage registration, registration of persons and issuance of travel documents, visas and permits, etc.

At present, the performance pledge set out for the GEP and ASMTP is: 90% of the applications to be finalised within four weeks upon receipt of all necessary documents. From 2011 to 2015, 97.7% to 98.8% of applications under the GEP were finalised within four weeks upon receipt of all necessary documents and met the pledged standard. In the same period, 96.1% to 98.6% of applications under the ASMTP achieved the pledged standard.

In response to the Audit Commission’s concern on the average processing time for certain applications under the abovementioned two talent admission schemes in their report, the ImmD has further enhanced the monitoring mechanism of application progress through regular reportings and progress review meetings. Apart from meeting the pledged standard (i.e. finalising applications within four weeks upon receipt of all necessary documents), the ImmD will, when handling each application, endeavour to complete each and every procedure within a reasonable time frame (i.e. normally within four weeks; but may take longer time in particular situation. For example, case processing will be comparatively more complicated and involve longer processing time in case of seeking advices from professional bodies.).
Reply to Question 3)

The Quality Migrant Admission Scheme (QMAS) aims at attracting highly skilled or talented persons to settle in Hong Kong in order to enhance Hong Kong’s economic competitiveness.

All applicants under the QMAS are required to fulfil a set of prerequisites, i.e. applicants must have good financial capability, character, academic qualification and language proficiency, before they are further assessed under the General Points Test (GPT) or the Achievement-based Points Test (APT).

There are five point-scoring factors under the GPT, including age, academic / professional qualification, work experience, language proficiency, and family background. Applicants will be awarded score under individual point-scoring factors. Applications with cumulative scores meeting the requirements will be short-listed for further assessment by the Advisory Committee on Admission of Quality Migrants and Professionals (the Advisory Committee). The Advisory Committee will also provide professional opinions to the ImmD on how to allocate the quota.

In May 2015, the ImmD has adjusted the point-scoring system under the QMAS in order to attract talented persons with outstanding educational background or international exposure to come to Hong Kong. Under the adjusted GPT, additional points will be awarded to graduates of renowned institutions recognised internationally or those applicants with international work experience for not less than two years.

Individuals with exceptional talent or skills and having outstanding achievements can choose to be assessed under the APT. Requirements under this test are very high. Applicants will normally be talent who has received an award of exceptional achievement (e.g. Olympic medals, Nobel prize, national / international awards, etc.) or has contributed significantly to the development of his / her field (e.g. lifetime achievement award from industry).

Under the abovementioned two points-based tests, all applicants are required to provide relevant supporting documents for verification. Applications having scored the minimum passing mark will be submitted to the Advisory Committee for further assessment.
The members of the Advisory Committee are appointed by the Chief Executive (please refer to Annex B for the membership). The unofficial members come from various sectors and have sound knowledge of the situation and needs of their own sectors. The Advisory Committee will consider the overall socio-economic needs of Hong Kong, the expertise and achievements of each applicant and other relevant factors before recommending to the Director of Immigration on whether quota should be allocated.

Entrants admitted under the QMAS will normally be granted an initial stay of 24 months (GPT) or eight years (APT) upon entry. Since no other condition of stay is imposed during their approved duration of stay in Hong Kong, the entrants enjoy higher flexibility in changing jobs, which facilitates their long-term development in Hong Kong and contributing to the economy of Hong Kong.

Reply to Question 4)

Applications submitted under the investment stream of the GEP usually involve a large amount of documents, including the applicant’s business track records (if any), business plan, estimated turnover, financial resources, investment sum, number of jobs created locally, etc. Normally, the case officers may take longer time in perusing relevant documents and considering various factors to decide whether the business stated in the application can contribute substantially to the local economy. The ImmD has all along been monitoring the application progress through spot checks in order to ensure the pledged standard be met, i.e. 90% of the applications to be finalised within four weeks upon receipt of all necessary documents.

Regarding the concern on the average processing time of certain applications under the investment stream of the GEP as mentioned in the Audit Report, the ImmD has reviewed the matter and will update the checklist of supporting documents generally required within the second quarter of this year so as to facilitate applicants in their submission of documents. Moreover, to strengthen supervision on application progress, the ImmD has further enhanced the current monitoring system which includes the submission of monthly returns setting out the number and progress of applications under processing by the case officers to their immediate supervisors. Besides, section head, sub-section head and the case officers will have application progress meetings regularly to review individual applications which require longer processing time, and to work out appropriate solutions.
Reply to Question 5)

The HKSAR Government all along welcomes entrepreneurs from around the world who are in a position to make contribution to our economy to establish or join in business in Hong Kong. Entrepreneurs who want to establish or join in business in Hong Kong under the investment stream of the GEP must meet the relevant eligibility criteria, including that the applicant is in a position to make substantial contribution to the local economy. Previously, when processing the application for extension of stay, the applicant should meet the abovementioned eligibility criteria for entry for investment, and the consideration factors of the ImmD include the applicant’s business track records, business plan, business turnover, financial resources, investment sum, number of jobs created locally, etc. Approval of such application for extension of stay will only be considered if the ImmD confirms that the applicant meets the relevant eligibility criteria.

The ImmD has implemented a series of enhancement measures for talent admission schemes with effect from May 2015, including clearly specifying the consideration factors during the assessment of applications under the investment stream of the GEP. These consideration factors include business plan, business turnover, financial resources, investment sum, number of jobs created locally, etc. Applicants are required to submit the supporting documents for applications for extension of stay in accordance with the document checklist newly incorporated in the application form and relevant immigration guidebook.

In paragraph 3.10 of the Audit Report, it is mentioned that 24 applications for extension of stay were approved without fully meeting the documentary requirement stipulated under the enhancement measures. After reviewing these applications, the ImmD found that the applicants concerned had been granted extension of stay according to the previous mechanism before the implementation of enhancement measures. These applicants filed their applications for extension of stay shortly after the implementation of enhancement measures and submitted supporting documents pursuant to the previous mechanism. After taking into account all relevant factors, the relevant section considered that the applicants still met the eligibility criteria for entry for investment. Since the enhancement measures were implemented not long ago, the section concerned adopted a more flexible approach and approved these applications for extension of stay.
At present, when processing the applications for extension of stay, the case officers must ensure that approval will be considered only after the applicants have submitted the relevant documents according to the requirements of the enhancement measures. The ImmD has also strengthened supervision and inspection, including increasing the number of applications to be spot-checked, so as to examine whether case officers have ascertained the submission of the stipulated supporting documents by the applicants before granting approval. Besides, the ImmD has started enhancing the computer system to ensure that the case officers, before finalising applications, have inputted the information about the applicants’ contribution to the economy of Hong Kong, including the amount of capital having been invested and to be invested in the coming three years, the number of local employees having been employed and to be employed in the coming three years, etc., into the computer system for future analysis.

Reply to Question 6)

Since the implementation of the Capital Investment Entrant Scheme (CIES) in 2003, cases involving breaches of Rules for the CIES (Scheme Rules) detected and handled by the ImmD are largely due to applicants’ negligence. For instance, there are cases where the applicants mistook “calendar day” for “working day”, causing the re-investment to be made on a date later than the stipulated one. In some other cases, the applicants could only complete the switch of permissible investment assets on the 15th calendar day as the 14th calendar day was a public holiday.

With regard to minor breaches or breaches owing to negligence, apart from being served warning letters by the ImmD, the applicants concerned also have to acknowledge in writing that they understand the breaches and give an undertaking that the Scheme Rules will be complied with in future before the ImmD considers approving their application for extension of stay. For cases of repeated or deliberate breaches, the ImmD will, depending on the circumstances, take appropriate actions against the applicants concerned, including requiring them to account for the breaches in details. For those applicants who failed to provide a reasonable explanation for the breaches, ImmD will consider refusing their applications for extension of stay. In fact, if applicants failed to provide clear and reasonable explanations for their breaches during the assessment of extension of stay applications leading to the termination of applications, the applicants will have to leave Hong Kong before the expiry of their limit of stay.
Reply to Question 7)

At present, over 340,000 foreign domestic helpers (FDHs) work in Hong Kong and the majority of them change to a new employer or renew contract with the same employer only after the completion of a contract. However, to tackle suspected abuse of the arrangement for premature termination of contracts for change of employers by individual FDHs (commonly known as “job-hopping”), the ImmD has set up a special duties team since June 2013 specially for handling and assessing this category of applications.

From June 2013 to April 2016, the ImmD vetted a total of 7,868 suspected “job-hopping” cases and refused 679 of them upon scrutiny. During the assessment process, a total of 808 applications were withdrawn or could not be processed further (i.e. the employers or applicants were unable to provide further documents or information to support the application). On the whole, 1,487 applications were not approved.

In fact, the case officers will consider a series of factors when processing applications from suspected job-hoppers. These factors include i) comments in the notices of termination of employment contract submitted by the employers and FDHs; ii) the duration of service of the FDHs in previous contracts; iii) records of the employers and FDHs; and iv) other relevant facts. If the ex-employer did not state or clearly explain the reasons for the termination of contract in the notice of termination (e.g. only stating that the FDH underperformed), the case officer will contact the ex-employer by telephone to find out whether the case involves job-hopping. If the case officer has tried but still in vain to contact the ex-employer, he/she will take into consideration all relevant factors and circumstances of the application before making a decision.

In response to the recommendations in the Audit Report, the ImmD has implemented a series of measures to further combat “job-hopping” since 26 April 2016, including improving workflow, increasing manpower to handle cases, and issuing clear operational guidelines to staff which set out specific instructions on contacting ex-employers or FDHs, checking their relevant records (including the reasons the parties terminated the contract prematurely), etc. The ImmD will monitor the situation and review the effectiveness of the measures in due course.
Reply to Question 8)

Regarding the recommendation in the Audit Report on exploring the enhancement of the functions of the Application and Investigation Easy System, the ImmD has conducted a review and preliminarily considered that the enhancement was technically feasible. The ImmD will continue to proactively follow up and implement the recommendation.

Reply to Question 9)

It is the HKSAR Government’s prevailing policy that fees charged by the Government should in general be set at levels sufficient to recover the full cost of providing the services. The ImmD will conduct timely review on all fee items according to the existing mechanism, with a view to achieving full cost recovery over time. According to existing mechanism, 26 fee items were revised in February 2015, including the fees for processing visas / entry permits and extension of stay. The ImmD has started carrying out a comprehensive review on all fee items in late 2015 and the exercise is in progress.

Reply to Question 10)

(i) and (ii) Please refer to Annex C for the statistics on the applications received and approved under various immigration policies / admission schemes from 2003 to April 2016.

(iii) The prevailing performance pledges set out by the ImmD for various immigration policies / admission schemes and the percentage of applications meeting the pledged targets in the past three years are tabulated below:
<table>
<thead>
<tr>
<th>Immigration policy / Admission scheme</th>
<th>Target (Upon receipt of all necessary documents) Note 1</th>
<th>Percentage of applications meeting the pledged targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Employment Policy (including both employment and investment streams)</td>
<td>90% of the applications to be finalised within four weeks</td>
<td>98.4% 98.7% 98.4%</td>
</tr>
<tr>
<td>Admission Scheme for Mainland Talents and Professionals</td>
<td>97.5% 96.1% 98.6%</td>
<td></td>
</tr>
<tr>
<td>Foreign Domestic Helpers</td>
<td>90% of the applications to be finalised within six weeks</td>
<td>98.3% 96.5% 99.6%</td>
</tr>
<tr>
<td>Supplementary Labour Scheme</td>
<td>100% 99.9% 99.8%</td>
<td></td>
</tr>
<tr>
<td>Quality Migrant Admission Scheme Note 2</td>
<td>The selection exercise of the Quality Migrant Admission Scheme is carried out once quarterly.</td>
<td></td>
</tr>
<tr>
<td>Immigration Arrangements for Non-local Graduates Note 2</td>
<td>It generally takes about two weeks to process applications from non-local fresh graduates upon receipt of all necessary documents. For returning non-local graduates, it generally takes four weeks to process their applications upon receipt of all necessary documents.</td>
<td></td>
</tr>
<tr>
<td>Capital Investment Entrant Scheme Note 2</td>
<td>The Capital Investment Entrant Scheme has been suspended with effect from 15 January 2015. The processing of the remaining applications is expected to be completed within two to three years.</td>
<td></td>
</tr>
</tbody>
</table>

Note:
1. These standards may not be achievable during certain daily peak hours or peak periods or in complicated cases.
2. No performance pledge has been set for the immigration policy / admission scheme.

The ImmD does not maintain statistics on the average processing time of applications. (iv) and (v) Please refer to Annex D for the statistics on entrants having acquired Hong Kong permanent resident status under various immigration policies / admission schemes, and having stayed in Hong Kong for seven years or more.
### I. 在港的聘用公司

**Employing Company in Hong Kong**

<table>
<thead>
<tr>
<th>公司名稱</th>
<th>Name of the company</th>
<th>聯絡人／授權人</th>
<th>Authorised person/Contact person</th>
</tr>
</thead>
<tbody>
<tr>
<td>網址</td>
<td>Website (if any)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>電郵地址</td>
<td>E-mail address (if any)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### (ii) 受聘僱員（申請人）擬在港擔任職位的詳情

**Details of position offered to the employee (applicant) in Hong Kong**

<table>
<thead>
<tr>
<th>僱員姓名</th>
<th>Name of employee (in English)</th>
<th>公司内部調動</th>
<th>intra-company transfer (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>姓</td>
<td>Surname</td>
<td></td>
<td></td>
</tr>
<tr>
<td>名</td>
<td>Given names</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 職位名稱

**Post title**

<table>
<thead>
<tr>
<th>職位名稱</th>
<th>Post title</th>
<th>公司內部調動</th>
<th>intra-company transfer (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 僱員的月薪（以港幣計算）

**Monthly salary offered to the employee (in HKD)**

<table>
<thead>
<tr>
<th>其他附帶福利（詳列附帶福利及僱員，例如房務、醫療補貼、認股權等）</th>
<th>Other fringe benefits (please specify the amounts and types e.g. housing, medical allowances, share options etc.)</th>
</tr>
</thead>
</table>

### 其他附帶福利按月的總額的數（以港幣計算）

**Approximate total value of fringe benefits per month (in HKD)**

### 薪資按月的總額（以港幣計算）

**Total value of remuneration package per month (in HKD)**

---

**Note:**

1. Including inter-group transfer.

2. An authorised person may sign on behalf of the employing company. In such cases, the company chop should be endorsed beside the signature.
### (ii) Details of position offered to the employee (applicant) in Hong Kong (Continued)

If the post offered is an existing position, please provide current qualifications required and salaries offered for the post. (If applicable)

Please state the justifications for employing the applicant in Hong Kong and reasons why the post cannot be filled by locals.

### (iii) Financial standing of the company

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of turnover of the company in the past 2 years</th>
<th>Paid-up capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$</td>
<td>(000) HK$</td>
</tr>
<tr>
<td></td>
<td>HK$</td>
<td>(000) HK$</td>
</tr>
</tbody>
</table>

If this form is a photocopy or downloaded copy, please complete this column.

In this page, the information given is correct, complete and true.

Note 1: An authorised person may sign on behalf of the employing company. In such case, the company chop should be endorsed beside the signature.

Note 2: The employer company's authorised person has signed and stamped the company chop.
(iv) 公司現時在本港聘用的僱員人數 Number of staff currently employed by the company in Hong Kong

<table>
<thead>
<tr>
<th>職員在港申請提供之僱員人數 (截至)</th>
<th>年份</th>
<th>本月</th>
<th>本年度</th>
</tr>
</thead>
<tbody>
<tr>
<td>日</td>
<td>月</td>
<td>年</td>
<td></td>
</tr>
</tbody>
</table>

本地僱員 Local | 非本地僱員 Non-local

(1) 專業、管理及督導階層僱員人數 Number of professional, managerial, & supervisory staff

(2) 其他僱員人數 Number of other staff

(v) 公司在本港聘用非本地僱員的資料 Information of employing non-local staff by the company in Hong Kong

(1) 在緊接本申請前的十八個月內，公司曾否為非本地僱員成功申請工作或受僱簽證／進入許可？

Did your company successfully obtain an employment or training visa/entry permit for non-local staff in the past 18 months immediately before the submission of this application?

☐ Yes ☐ No

If Yes, please provide the application reference in our department of the latest non-local staff being employed or trained.

(申請職位名稱 Position title) （檔案號碼 Reference no.）

(2) 在緊接本申請前的十八個月內，公司曾否根據補充勞工計劃向勞工處遞交輸入勞工來港就業申請？

Did your company submit any application(s) to import worker(s) into Hong Kong under the Supplementary Labour Scheme to the Labour Department in the past 18 months immediately before the submission of this application?

☐ Yes ☐ No

If Yes, provide the application reference no.:

<table>
<thead>
<tr>
<th>申請職位名稱</th>
<th>申請勞工數目</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applied post title</td>
<td>Number of worker(s) applied</td>
</tr>
</tbody>
</table>

申請日期 Date of application

申請結果 Application result

☐ 獲批准 Approved ☐ 不獲批准 Not approved

2. 在港聘用公司的陳述說明及聲明 (由獲授權人士作出陳述說明及聲明)

Employing Company’s Statement and Declaration (To be made and declared by an authorised person)

本人同意為處理本申請案而進行任何所需的查詢。

I consent to the making of any enquiries necessary for the processing of this application.

本人同意將此申請表內各項資料提供予各政府部門(包括稅務局)及其他在香港特別行政區域內或境外的公、私營機構(包括強制性公積金計劃管理局)作核對用途。

I consent to the use/disclosure of any information herein by/to any government bureaus, departments (including the Inland Revenue Department) and any public or private organisations inside or outside the Hong Kong Special Administrative Region (including the Mandatory Provident Fund Schemes Authority) for verification purposes.

本人承諾將申請人在入境事務處及所批給的逗留期限內滿時仍未離港，本人願意承擔責任，將申請人遣返(或上訴留港)。

I undertake to assume responsibility for the applicant’s repatriation to (place of domicile) if at the expiry of the period granted by the Director of Immigration, the applicant fails to leave Hong Kong.

本人承諾會將申請人在入境事務處及所批給的逗留期限內滿時仍未離港，本人願意承擔責任，將申請人遣返(或上訴留港)。

I undertake to assume responsibility for the applicant’s repatriation to (place of domicile) if at the expiry of the period granted by the Director of Immigration, the applicant fails to leave Hong Kong.

本人聲明在本申請表內所填報的各項資料均屬正確、完備及和真實。

I declare that all information given in this application form is correct, complete and true to the best of my knowledge and belief.

<table>
<thead>
<tr>
<th>授權人的姓名 Name of authorised person</th>
<th>職位 Post title</th>
</tr>
</thead>
<tbody>
<tr>
<td>簽署及公司蓋章 (註 3) Signature and company chop (Note 3)</td>
<td>Date</td>
</tr>
</tbody>
</table>

(註 3: 授權公司可授權一名人士代表公司簽署。在此情況下，獲授權人士應在署名旁加蓋公司印章。)

Note 3: An authorised person may sign on behalf of the employing company. In such case, the company chop should be endorsed beside the signature.
Collecting Personal Information

1. Purpose of Collection

The personal data provided in this application form will be used by the Immigration Department for one or more of the following purposes:

1. To process your application;
2. To administer/enforce relevant provisions of the Immigration Ordinance (Chapter 115) and Immigration Service Ordinance (Chapter 331), and to assist the Immigration Department in the enforcement of any other Ordinances and Regulations by other government bureaux and departments through carrying out immigration control duties;
3. To process other persons' application for immigration facilities in which you are named as a sponsor or referee;
4. For statistical and research purposes on the condition that the resulting statistics or results of the research will not be made available in a form which will identify the data subjects or any of them; and
5. Any other legitimate purpose as may be required, authorised or permitted by law.

In accordance with the above purposes, the Hong Kong Government may disclose the personal data provided in this application form to the relevant government bureaux, departments and other organisations for the purposes mentioned above.

2. Classes of Transferees

The personal data you provide may be disclosed to government bureaux, departments and other organisations for the purposes mentioned above.

3. Access to Personal Data

You have a right to request access to and correction of your personal data as provided for in sections 18 and 22 and Principle 6 of Schedule 1 of the Personal Data (Privacy) Ordinance (Chapter 486). Your right of access includes the right to obtain a copy of your personal data provided in this application form subject to payment of a fee.

Enquiries concerning the personal data collected by means of the application form, including making of access and corrections, should be addressed to:

- Immigration Arrangements for Non-local Graduates and Admission Scheme for Mainland Talents and Professionals
  - Chief Immigration Officer (Quality Migrants and Mainland Residents)
  - Immigration Tower, 7 Gloucester Road, Wan Chai, Hong Kong
  - Tel.: (852) 2294 2050

- General Employment Policy
  - Chief Immigration Officer (Employment and Visit Visas)
  - Immigration Tower, 7 Gloucester Road, Wan Chai, Hong Kong
  - Tel.: (852) 2294 2299

4. General Enquiries

For general enquiries, please contact us at:
- Tel.: (852) 2824 6111
- Fax: (852) 2877 7711
- E-mail: enquiry@immd.gov.hk
- Website: www.immd.gov.hk
Advisory Committee on Admission of Quality Migrants and Professionals

Membership List (as at May 2016)

<table>
<thead>
<tr>
<th>Name</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chairman</strong></td>
<td></td>
</tr>
<tr>
<td>1. Ms YANG Mun-tak Marjorie, GBS, JP</td>
<td>Manufacturing Industries</td>
</tr>
<tr>
<td><strong>Non-official Members (Total: 18)</strong></td>
<td></td>
</tr>
<tr>
<td>2. Prof CHAN Tak-cheung, Anthony</td>
<td>Human Health and Veterinary Services</td>
</tr>
<tr>
<td>3. Dr CHAN Wai-hung, Wilco</td>
<td>Catering and Tourism</td>
</tr>
<tr>
<td>4. Mr CHEUNG Leong</td>
<td>Financial and Accounting Services</td>
</tr>
<tr>
<td>5. Prof CHEUNG Siu-yin, MH</td>
<td>Sports</td>
</tr>
<tr>
<td>6. Prof CHEUNG Wai-ting Nicole</td>
<td>Academic Research and Education</td>
</tr>
<tr>
<td>7. Mr CHONG Man-keung</td>
<td>Broadcasting and Entertainment</td>
</tr>
<tr>
<td>8. Mr HO Chi-hoo, David, BBS</td>
<td>Commerce and Trade</td>
</tr>
<tr>
<td>9. Mr HUNG Keung</td>
<td>Arts and Culture</td>
</tr>
<tr>
<td>10. Mr KO Tin-lung</td>
<td>Broadcasting and Entertainment</td>
</tr>
<tr>
<td>11. Mr LAM Siu Chung, Edmund</td>
<td>Business Support and Human Resources</td>
</tr>
<tr>
<td>No.</td>
<td>Name</td>
</tr>
<tr>
<td>-----</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>12.</td>
<td>Ms LAU Sze-wan, Serena</td>
</tr>
<tr>
<td>13.</td>
<td>Ms Christina Maisenne LEE</td>
</tr>
<tr>
<td>14.</td>
<td>Mr LEE Wai-kwong, Sunny, JP</td>
</tr>
<tr>
<td>15.</td>
<td>Ms LO Po-man</td>
</tr>
<tr>
<td>16.</td>
<td>Dr LO Wai-chau, Edward</td>
</tr>
<tr>
<td>17.</td>
<td>Mr MA Wing-kai, William</td>
</tr>
<tr>
<td>18.</td>
<td>Dr PAN Pey-chyou, BBS</td>
</tr>
<tr>
<td>19.</td>
<td>Mr TING Tien-li, Ivan</td>
</tr>
</tbody>
</table>

**Official members**
Representative of Labour and Welfare Bureau
Representative of Labour Department
Representative of Security Bureau
Annex C: Statistics on applications received and approved under various immigration policies / admission schemes

<table>
<thead>
<tr>
<th>Immigration policy /Admission scheme</th>
<th>2003 Applications received</th>
<th>2003 Applications approved</th>
<th>2004 Applications received</th>
<th>2004 Applications approved</th>
<th>2005 Applications received</th>
<th>2005 Applications approved</th>
<th>2006 Applications received</th>
<th>2006 Applications approved</th>
<th>2007 Applications received</th>
<th>2007 Applications approved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Stream under General Employment Policy</td>
<td>487</td>
<td>297</td>
<td>399</td>
<td>236</td>
<td>545</td>
<td>243</td>
<td>698</td>
<td>372</td>
<td>464</td>
<td>177</td>
</tr>
<tr>
<td>Admission Scheme for Mainland Talents and Professionals Note 2</td>
<td>1 762 (Jul - Dec)</td>
<td>1 350 (Jul - Dec)</td>
<td>4 470</td>
<td>3 745</td>
<td>4 659</td>
<td>4 029</td>
<td>5 709</td>
<td>5 031</td>
<td>6 698</td>
<td>6 075</td>
</tr>
<tr>
<td>Quality Migrant Admission Scheme Note 3</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>587 (Jun - Dec)</td>
<td>25 (Jun - Dec)</td>
<td>627</td>
<td>187</td>
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<tr>
<td>Immigration Arrangements for Non-local Graduates Note 4</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<td>847</td>
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Note:
1. The number of applications approved generally does not fully correspond to the number of applications received in a particular year since the receipt and completion of a case may not fall in the same year.
2. The Admission Scheme for Mainland Talents and Professionals was launched on 15 July 2003.
3. The Quality Migrant Admission Scheme was launched on 28 June 2006.
4. The Immigration Arrangements for Non-local Graduates was launched on 19 May 2008.
5. The Capital Investment Entrant Scheme (Scheme) was launched on 27 October 2003 and has been suspended with effect from 15 January 2015. The Immigration Department will continue to process the applications received before the suspension and in the transitional period in accordance with the Rules for the Scheme.
## Annex D: Statistics on entrants having acquired Hong Kong permanent resident status under various immigration policies/admission schemes, and having stayed in Hong Kong for seven years or more

<table>
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<tr>
<th>Immigration policy / Admission scheme</th>
<th>Entrants having acquired Hong Kong permanent resident status&lt;sup&gt;Note 1&lt;/sup&gt;</th>
<th>Entrants having stayed in Hong Kong for seven years or more&lt;sup&gt;Note 4&lt;/sup&gt;</th>
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<td>Not applicable&lt;sup&gt;Note 3&lt;/sup&gt;</td>
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</tbody>
</table>

**Note:**

1. Breakdown in accordance with the immigration status of entrants at the time when they applied for Hong Kong permanent resident status.
2. Statistics include the employment and investment streams under the General Employment Policy.
3. According to the Immigration Ordinance, the period of stay of foreign domestic helpers (FDHs) and workers admitted under the Supplementary Labour Scheme (SLS) shall not be treated as ordinary residence in Hong Kong. Therefore, they cannot acquire the Hong Kong permanent resident status.
4. Statistics do not include those who have already acquired the Hong Kong permanent resident status.
5. The Immigration Department does not maintain the statistics on FDHs and workers admitted under the SLS who have stayed in Hong Kong for seven years or more.
20 June 2016

Mr Anthony CHU  
Clerk to Legislative Council Public Accounts Committee  
Legislative Council Complex  
1 Legislative Council Road  
Central  
Hong Kong  
(Fax no.: 2543 9197)

Dear Mr Chu,

Public Accounts Committee  
Consideration of Chapter 5 of the Director of Audit’s Report No. 66  
Hong Kong Academy for Performing Arts

Thank you for your letter of 13 May 2016 on the above subject.

We provide at Annex a coordinated response to your questions raised for the Public Accounts Committee on issues related to the Home Affairs Bureau (HAB) and the Hong Kong Academy for Performing Arts (the HKAPA).

Yours sincerely,

(Signed)  
(Ms Elaine Mak)  
for Secretary for Home Affairs

c.c. Director of Audit  
Secretary for Financial Services and the Treasury  
Secretary for Education  
Secretary General, University Grants Committee  
Director, The Hong Kong Academy for Performing Arts
### Part 1  Introduction

<table>
<thead>
<tr>
<th>Question</th>
<th>(HKAPA)</th>
<th>(Paragraphs 1.7-1.10 refer) As at 31 October 2015, there were 643 students enrolling for undergraduate degree programmes, 142 for sub-degree programmes, 690 for junior programmes and 133 for Master’s degree programmes at the Hong Kong Academy for Performing Arts (HKAPA), equivalent to 1 197 full-time students (two part-time students counted as a full-time one) in total. As at 30 September 2015, there were 116 full-time academic posts and 403 part-time teaching staff in the HKAPA's establishment, equivalent to around 318 full-time teaching staff (two part-time teaching staff counted as a full-time one). A rough calculation has shown that the staff-student ratio in the HKAPA is about 1:3.8, while those for the eight tertiary institutions surveyed range from 1:8 to 1:16 according to statistics of the University Grants Committee (UGC). Although the HKAPA stated that the university-based arts programmes offered by UGC-funded institutions were totally different from the small-class performing arts programmes offered by the HKAPA, mainly in terms of the specialised teaching methodologies of the latter which required a higher faculty staff ratio than that of a university, how does the Government define the current staff-student ratio in the HKAPA as reasonable? What are the staff-student ratios for similar institutions in other major cities around the world (e.g. New York, London and Singapore)? If the staff-student ratio in the HKAPA is different from those in similar institutions in other cities, please elaborate on the reasons for the difference?</th>
</tr>
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<tbody>
<tr>
<td>Response 1</td>
<td>1.1 The Hong Kong Academy for the Performing Arts (HKAPA)’s staffing structure has taken into account the special nature of performing arts education and the specific teaching requirements for a particular discipline. For example, some classes at the HKAPA employ one-to-one teaching approach (e.g. in Western and Chinese musical instruments classes). Like many international Music conservatoires, HKAPA’s School of Music maintains a relatively small core of full-time teachers, and they are complemented by part-time faculty who are specialists in a range of instruments to meet the wide-range of performance</td>
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specialisms. The Music School employs considerably more part-time teachers than the other Schools in terms of headcount, but these teachers may only teach a few hours per week.

1.2 Based on the actual number of hours of teaching duties performed by the part-time teaching staff, the 403 part-time teaching staff engaged by the HKAPA is equivalent to 25 full-time teaching staff as at 30 September 2015 (4 395/176 = total monthly teaching hours of all part-time teaching staff/standard monthly working hours of each full-time teaching staff), making a total of 141 full-time equivalent (FTE) teaching staff. The overall ratio of student to FTE teaching staff for HKAPA is thus 1:8.5 (1 197/141 = total number of FTE students as at October 2015/total number of FTE teaching staff as at 30 September 2015).

1.3 The HKAPA’s student-teaching staff ratio is broadly comparable with those of performing arts institutions in other places. Reference can be made to the Trinity-Laban College UK (1:10.1), Royal Conservatory of Scotland (1:10.8), Royal Academy of Music (1:9), Royal Welsh College of Music and Drama (1:8.4), Guildhall School of Music and Drama (1:7.4) and the California Institute of the Arts (1:7).

<table>
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<th>Part 2</th>
<th>Provision of Academic Programmes</th>
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<td>Question 1 (HAB)</td>
<td>Enrolment Shortfall and Lack of a Policy on Admission of Non-local Students in the HKAPA (paragraphs 1.12, 2.8, 2.20, 2.23, 2.27 and 2.28 refer)</td>
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</tbody>
</table>
| Question 2 (HKAPA) | According to Government’s policy, starting from 2016/17, all non-local new recruits for UGC-funded education institutions should be admitted through over-enrolment outside the approved student number targets. Subvented by the Government through the Home Affairs Bureau (HAB), the HKAPA does not differentiate local students from non-local students in its student number target. UGC-funded institutions are required to charge non-local students tuition fee at a level sufficient to recover at least all additional direct costs. In 2015/16, their fees ranged from $110,000 to $146,000. However, the HKAPA charged its non-local students the same tuition fee as that for local students. In 2015/16, the tuition fee is $42,000. The HKAPA failed to meet the enrolment target for four consecutive years. The enrolment shortfalls have increased from 14 places (2%) in 2012/13 to 40 places (5%) in 2015/16. In 2015/16, there were 698 local students admitted, filling only 85% of the enrolment target of 825. The shortfall
was partially made up by 87 non-local students.

(a) Why are the HKAPA’s practices of enrolling non-local students and charging tuition fee different from those adopted by other UGC-funded institutions? Will the HAB and the HKAPA rationalise the latter’s policy on enrolment and tuition fee for non-local students?

(b) In the face of competition from other tertiary institutions and the reduction of enrolment numbers, what initiatives will the HKAPA adopt to respond to the enrolment challenges?

| Response 2 | 2.1 As stated in the Audit report, apart from being a higher education institution, the HKAPA plays a pivotal role in grooming artistic talents for Hong Kong’s arts development. The nature and functions of a performing arts education provider is distinct from that of other tertiary education institutions, and the HKAPA and University Grants Committee (UGC)-funded institutions operate with different funding mechanisms which are driven by different policy objectives. Against this background, HKAPA’s policies on enrolment and tuition fee for non-local students has hitherto not been the same as those adopted by UGC-funded institutions.

2.2 In the light of the different roles of HKAPA and UGC-funded institutions, in HAB’s letter to HKAPA of February 2015 (as referred in paragraph 2.24 of the Audit report), the Government has not required the HKAPA to allocate its publicly funded places entirely to local students nor adopt the refined tuition fee charging policy applicable to UGC-funded institutions per se. Instead, we requested the HKAPA to review its enrolment and tuition fee charging policy for non-local students, having regard to the academic needs of the HKAPA for a satisfactory international mix of student population, the overall quality of the learning environment and experience for Academy students, the cost-effectiveness of the use of public funds as well as the rationale behind the new policy promulgated for UGC-funded institutions. In response, the HKAPA commenced a review of the tuition fees for non-local students in 2015. HAB will continue to follow up with the HKAPA with a view to working out a set of clear enrolment and tuition fee policy for non-local students having regard to the above considerations.

2.3 The HKAPA is taking steps to address the key issues relating to enrolment numbers, including reviewing the relevant entry and articulation pathways. It
will continue to review how best it could further target the specific pool of candidates with the required skills and aspirations to pursue an artistic career to join the institution. In order to reach out to a wider pool of suitably qualified candidates and facilitating their applications, HKAPA plans to develop an online web-based platform for local and international students to submit their applications, and to refine its application procedures.

| Question 2 (HAB) | (Paragraphs 2.35-2.37 refer) According to the information provided by the UGC, from 2009/2010 to 2014/15, the average student unit cost for undergraduate programmes in arts, design and performing arts category decreased by 5% from $213,000 to $203,000. Over the same period, the number of students under that category increased by 115 people or 67%. The student unit cost of the HKAPA increased by 47% in the same period, while the number of students decreased by 8 persons or 1%. In addition, there was an upward trend of the student unit cost of the HKAPA, showing an increase of 80% from $171,000 in 2005/06 to $308,000 in 2014/15. However, the Consumer Price Index over the same period increased by only 34% (in calculating the student unit cost, the government recurrent funding was taken as the cost and divided by the number of full-time equivalent students in all subvented programmes). This was even 52% higher than the unit cost of relevant programmes in institutions under the UGC. Based on the above comparison and analysis, the number of students dropped rather than rose, representing one of the major reasons for the relatively higher average student unit cost of the HKAPA. Are there any other reasons leading to the increase in student unit cost? Furthermore, did the HKAPA look into the actual reasons for the cost increase that far exceeded the inflation rate in the past few years? Was there any waste of resources? What are the improvement strategies and initiatives taken by the HKAPA to enhance the cost effectiveness of its funded programmes? |
|---|
| Question 4 (HKAPA) | 3.1 As stated in HAB’s response in the Audit report, the student unit cost of the HKAPA has increased by around 5% to 6% per year on average since 2005/06, except for 2012/13. The more substantial increase (about 17%) in 2012/13 was primarily due to the provision of additional recurrent funding to the HKAPA for implementing the four-year undergraduate programme. As the additional funding was provided to fund the expansion and implementation of new study areas, enhancement of teaching and learning through enriching teaching resources and expanding learning supporting services, etc., these costs are mainly fixed costs for the investment required for the migration to four-year programme, |
causing increase in the student unit costs.

3.2 As stated in the HKAPA’s response in the Audit report, the operating cost of the Conservatoire style performing arts programmes offered by the HKAPA is higher than the university-based arts programmes offered by UGC-funded institutions. The specialised delivery methodologies in the performing arts require a higher faculty staff ratio than that of a university. The incorporation of production and performance as a core and integral component of HKAPA’s curriculum also has the effect of driving up the cost of its programmes. Hence, comparing with the arts programme offered by UGC-funded institutions, the student unit cost of the HKAPA is higher.

3.3 HAB and the HKAPA will continue to monitor the student unit cost and review the overall effectiveness of its programmes, and consider differentiating the student unit costs for different types of programmes to facilitate benchmarking with similar courses provided by its local and overseas counterparts.

Question 3 (HKAPA)

(Paragraphs 2.7-2.10 refer) The enrolment targets for undergraduate degree programmes have not been met for all four academic years from 2012/13 to 2015/16. Among all schools of the HKAPA, the School of Chinese Opera had the highest level of enrolment shortfall. The number of students of the School decreased from 57 in 2013/14 to 46 in 2015/16. In 2015/16, the number and percentage of enrolment shortfall were 16 and 26% respectively.

(a) Has the Government made an in-depth review on the actual reasons for the enrolment shortfall? If so, what are the details? In the face of competition from other UGC-funded institutions, how will the HKAPA improve its enrolment rate?

(b) In the light of the serious enrolment shortfall in individual schools, has the HKAPA explored the possibility of in-house consolidation or reorganisation of its various schools? For example, is it possible to expand the curriculum of the School of Chinese Opera from a more Cantonese Opera-oriented approach to a programme involving other mainstream opera forms worldwide and western opera, and bring its programmes or disciplines closer to those provided by overseas performing arts institutions, in order to increase the opportunities for its graduates to conduct overseas exchanges or to further studies?
4.1 The HKAPA has always adhered to a quality-driven recruitment and enrolment agenda, which is imperative to ensuring the quality of performing artists trained under its programmes and the pursuit of artistic excellence for the long-term arts and cultural development in Hong Kong. As such, its recruitment process involves an audition process which is a crucial step in determining an applicant’s potential to build a professional career in their chosen art form and suitability for admission to the programme. To ensure the quality of the programmes, only applicants who actually possess the necessary artistic quality, potentials and performance skills are admitted to the Academy. The migration to the four-year degree programme had an impact on student enrolment due to a change in entry level requirements in respect of the HKDSE results as some artistically gifted candidates might not be able to meet the HKDSE requirement.

4.2 The HKAPA will continue to review how best it could further target the specific pool of candidates with the required skills and aspirations to pursue an artistic career to join the institution. The HKAPA is taking steps to address the key issues relating to enrolment numbers, including reviewing the relevant entry and articulation pathways. A Task Force has been set up for the purpose and will report progress to the Academic Board of HKAPA on a regular basis. It also plans to develop an online web-based platform for local and international students to submit their applications with a view to reaching out to a wider pool of suitably qualified candidates and facilitating their applications.

4.3 As regards the enrolment situation of the School of Chinese Opera, the School is the youngest one among the six Schools of the HKAPA. It started to offer the first-ever degree programme in Cantonese Opera in Hong Kong from the 2013/14 academic year. Cantonese Opera is one of the important forms of Hong Kong’s traditional arts and culture and provision of training on Chinese Opera complements the Government’s policy to promote the preservation, study, promotion and continuing development of this important art form, which has been inscribed onto the Representative List of the Intangible Cultural Heritage of Humanity under the United Nations Educational, Scientific and Cultural Organization (UNESCO). However, Cantonese Opera training at a pre-tertiary level in Hong Kong has not been widely developed, neither within the private sector nor the school system. This has confined the number of local students with the requisite skill set to pursue studies at an advanced level. Against such circumstances, it will take time for the programme to gain greater recognition in
the wider community. Given that its first cohort is due to graduate in 2016/17, the impact and potential of this programme has yet to be fully demonstrated and assessed. That said, the HKAPA is taking steps to address key issues related to enrolment in the School of Chinese Opera, including:

- Reviewing entry standards to create more flexible entry options and pathways;
- Reviewing the breadth of the course beyond specialist performance areas to broaden the potential enrolment base;
- Stimulating interest in Cantonese Opera through targeted outreach programmes, and building a reputation amongst the public of the true value of the School’s quality programme through regular high quality performances;
- Reviewing recruitment strategy, as the School will require an approach different from that of the other established Schools at the Academy which are more well-known and accepted within the wider community and have access to more established markets of their discipline areas;
- Deepening the collaboration with local Chinese Opera industry artists and association.

Question 5 (HKAPA) (Paragraphs 2.49-2.50 refer) The response rates of graduate employment surveys conducted by the HKAPA were 15%, 27% and 24% for the years 2012, 2013 and 2014 respectively, while those for the two randomly selected UGC-funded institutions were all at or above 85% for the years above. As all the respondents were students of local institutions, could the Government please explain why there was such an extreme difference in the response rates? Does this phenomenon suggest that the career prospects of HKAPA graduates are relatively poor, thus resulting in low response rates? If so, what improvements can be made in this regard? If not, what are the reasons for the low response rates?

Response 5 5.1 The HKAPA has always been outsourcing its Graduate Employment Survey to a professional and reputable consultancy firm since the exercise was commenced in 2012. The first survey conducted in 2012 was sent to all former students who graduated in 2010, 2011 and 2012. The response rates of the surveys conducted in 2012, 2013, and 2014 were 15%, 27% and 24% respectively. The low response rate in 2012 was mainly attributed to the challenge in reaching out to former graduates who had graduated some 2 to 3 years ago prior to the time of the survey. The response rates in 2013 and 2014
surveys had improved after the HKAPA had taken proactive steps to encourage the graduates of the year to respond to the survey.

5.2 It is noted that the response rates of the graduate employment surveys conducted by the HKAPA were lower than those conducted by other tertiary education institutions. This may be due to the timing and methodology for conducting fieldwork for collecting responses from graduates. The HKAPA will review the situation to see if the survey process can be modified with a view to improving the response rate of future surveys. To improve the response rate, especially that to online surveys, apart from making follow-up phone calls to remind the graduates, the Academy would offer suitable incentives to boost response rate.

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<td><strong>Question 3 (HAB)</strong></td>
<td>(Paragraph 3.24 refers) In 2004, the Government issued the Financial Circular No. 9/2004 on “Guidelines on the Management and Control of Government Funding for Subvented Organisations”. However, the important requirements specified in the Financial Circular regarding the submission of annual financial statements were not incorporated in the Memorandum of Administrative Arrangements (MAA) of the HKAPA. As a result, the HKAPA has not submitted to the HAB an audited financial report on its funded programmes. Does the Government, being the control authority, have any control measures in place to ensure that its subvented organisations comply with the important requirements specified in the funding guidelines? If yes, what are the reasons for not noticing the fact that the HKAPA has not submitted any audited financial reports for years? Who should be held responsible for this? If no, what improvement measures will be taken?</td>
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<td><strong>Response 6</strong></td>
<td>6.1 The HAB all along exercises effective management and control of government subvention allocated to the HKAPA. Currently, the HKAPA is required to submit and has been submitting financial statements and auditor’s report annually, together with their annual report, to HAB for tabling before the Legislative Council in accordance with section 23 of the HKAPA Ordinance (Cap. 1135). The audited financial statements submitted by the HKAPA to HAB cover, amongst other things, the total tuition, programmes and other fees (i.e. income) from the subvented programmes. As a member of the HKAPA Council and Finance Committee, HAB also receives on a regular basis detailed</td>
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information on the breakdown of income and expenditure on both the government and non-government funded activities of the HKAPA, as well as on movements in the reserve of unspent subvention retained and assets acquired under the subvented programmes.

6.2 As stated in HAB’s response in the Audit report, we are in the process of reviewing and updating the Memorandum of Administrative Arrangements (MAA) signed with HKAPA and will incorporate the relevant reporting requirements as specified in Financial Circular No. 9/2004 into the MAA as soon as practicable.

| Question 4 (HAB) | (Paragraphs 3.30-3.36 refer) The Audit Report pointed out from different aspects that there were several discrepancies and differences between the operation and management of the HKAPA and that of UGC-funded institutions, reflecting that the problems and loopholes originated from the lack of a standardised regime and a dedicated regulatory authority. According to the review report entitled “Aspirations for the Higher Education System in Hong Kong” published by the UGC in December 2010, the HKAPA should be funded and overseen by the UGC. However, since November 2011, there has not been further development on the issue of transferring the responsibility of funding and overseeing the HKAPA from the HAB to the UGC. In order to achieve a standardised and professional management and overseeing of public-funded tertiary institutions so as to maximise the synergy effects, has the Government conducted a comprehensive research on transferring the management responsibility from the HKAPA to the UGC? If yes, what are the details? If no, how did the relevant conclusion come up? |
| Response 7 | 7.1 Unlike the UGC-funded tertiary education institutions where student numbers are a key factor for calculating subvention, under the existing funding arrangement for HKAPA, the amount of subvention for the HKAPA in a particular year is determined having regard to a number of factors, including HKAPA’s baseline expenditure, approved funding for new initiatives, estimated income, impact of civil service pay adjustment, and the overall government budgetary situation, etc. Given the unique role and functions of the HKAPA in achieving the Government’s vision of developing Hong Kong into a cultural metropolis and implementing its arts and cultural policies, HAB considers it necessary and beneficial to continue with the existing subvention arrangement through which it can work with the HKAPA closely and directly in pursuing |
performing arts education policies and initiatives. This objective could not be achieved should the policy and funding responsibilities for HKAPA be transferred to the Education Bureau or the UGC. Indeed, the present funding arrangement reflects and reinforces the strategic partnership between HAB and HKAPA, and caters to the needs and aspirations of the stakeholders in the arts and cultural sector.

7.2 It is a critical time for the HKAPA to work closely with HAB and other partners in the arts sector to enhance Hong Kong’s cultural software in tandem with the development of the West Kowloon Cultural District. Under the established funding arrangement, the HKAPA can fully devote itself to further improving the quality of its performing arts programmes to address the needs of the arts sector in line with the arts and cultural policies.

7.3 As stated in HAB’s response in the Audit Report, we will seek the endorsement of the HKAPA Council and other relevant bureaux on maintaining the current funding arrangements for the HKAPA during which the justifications would be clearly and fully articulated.

Question 6 (HKAPA) (Paragraphs 3.28-3.29 refer) The HKAPA had twice made allocations from its reserve, but did not follow the requirements under its signed MAA to obtain timely approval from the HAB. In addition, the HKAPA did not return duly the unspent amount to the reserve.

(a) Has the Finance Committee of the HKAPA made any suggestions or recommendations on its management and regulation against the problems mentioned in the Audit Report? If yes, what are the details?
(b) Has the Finance Committee of the HKAPA played an overseeing role relating to the implementation of an important financial management regime? If no, what are the reasons?

Response 8 8.1 The Finance Committee of the HKAPA plays an important role in monitoring the financial management system of the Academy and will continue to advise and make recommendations to the Council on financial matters.

8.2 Apart from the follow up actions stated in HAB’s response to the cases mentioned in paragraphs 3.28(a) and 3.28(b) of the Audit Report, actions have also been taken to follow up on the case mentioned in paragraph 3.29(a) of the
Audit report: after a thorough review to ensure that no further expenses would be incurred for the 30th Anniversary event, HKAPA has returned a total of $1.4 million (unspent balance of the allocation) to the its government reserve account in February 2016.

8.3 For case mentioned in paragraph 3.29(b) of the Audit report, the HKAPA estimates that a substantial amount from the Béthanie Maintenance Reserve Fund (which is used for funding both the initial operation cost and the ongoing maintenance costs of the Béthanie site) will be utilized to carry out maintenance works for the Béthanie, which was declared as Monument in November 2013 by the Antiquities Authority under the Antiquities and Monuments Ordinance. As compliance with all relevant statutory requirements for carrying out works in the Declared Monument Béthanie will require maintenance of the building health, safety and structural stability, the HKAPA is of the view that there is a need to retain the Bethanie Maintenance Reserve Fund. HKAPA is currently in the process of appointing a consultant to carry out a comprehensive condition survey and investigation to come up with recommendations for thorough maintenance works to be carried out for submission to relevant authorities.

8.4 Furthermore, HAB has reminded the management of the HKAPA to observe the relevant provisions in the MAA in respect of the use of reserve fund, including the need for obtaining HAB’s prior approval for making allocation from the reserve and returning any unspent balance of an allocation to the reserve in a timely manner.

8.5 The Finance Committee of HKAPA has thoroughly discussed the measures to enhance the financial control and management of the Academy. The HKAPA Council has also set up an Ad-hoc Committee (comprising Finance Committee members) to examine all the recommendations made by the Audit Commission and to consider appropriate follow-up measures. The Deputy Director (Administration) and Registrar of HKAPA will lead a management team to implement the follow-actions to be devised and the Ad-hoc Committee will monitor the progress of implementation.

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<td>Question 5 (HAB)</td>
<td>(Paragraphs 4.5-4.7 refer) Low utilisation rate was observed in the teaching venues at some campuses of the HKAPA. The average utilisation rates were</td>
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| Question 7 (HKAPA) | 32% to 79% for venues at the Wanchai Campus, 3% to 28% for venues at the Béthanie Campus and 12% to 35% for leased premises in commercial buildings. According to the Audit Report, the HKAPA claimed that there was an acute shortage in teaching venues. It was therefore taking forward campus expansion and improvement projects (please see Part 5 below), which were contradictory to the report findings that low utilisation rates were recorded for some teaching venues.

(a) The average utilisation rate for the Béthanie Campus was only between 3% and 29%. What are the reasons? Are there any improvement measures?
(b) Does the HKAPA have any plans to reduce the scale of leasing premises in commercial buildings and make better use of its campus venues with a low utilisation rate to avoid wasting resources? If no, what are the reasons?
(c) Did the Government make an assessment as to whether there would be a change in the low utilisation rate for the teaching venues at the campus upon completion of campus expansion works? If yes, what is the conclusion? If no, what are the reasons?
(d) When the HKAPA initially put forward the expansion project, on what assumption was it based and what were the specific information and data (such as the increase in enrolment and programmes) involved? What are the differences as compared with the present actual situation and the trend projection? |
| Response 9 | 9.1 The Béthanie Campus houses the School of Film/TV (FTV), providing teaching space as well as other facilities for public hiring purpose, including the Chapel, the Wellcome Theatre and the Sir Y K Pao Studio. Non-FTV School students do not regularly use the teaching space and facilities in the Béthanie campus as the “general” classes such as Academy electives, languages, liberal arts courses, as well as other practical and project–based courses are held in the main Wanchai campus. Due to its isolated location and the specialized nature of the facilities therein, the hiring rate of most of the public hiring facilities in Bethanie is relatively low.

9.2 Since many teaching venues of the Academy are specialized facilities catering for divergent training needs of different performing arts disciplines, they are designed to be only suitable for designated uses and thus the utilization of such facilities will not be as high as general facilities (such as lecture rooms). |
While the HKAPA will have to retain the specialized nature of the majority of its teaching facilities and venues upon the completion of the on-site campus expansion (OCE) project, it will proactively review its requirement for hiring commercial buildings upon the completion of the OCE project as the main campus will then be able to accommodate some of the teaching activities currently carried out in hired commercial buildings.

9.3 To follow-up on the Audit Commission’s observations, HKAPA has formed a designated working group to examine the issue of optimal space usage, and will continue to consider how best to put all its venues into the most meaningful uses. HKAPA is in the process of reviewing the utilisation rates of all its venues, and will enhance the Central Timetabling System to streamline the room booking operation and to optimize the utilisation of teaching venues. Schools and Departments will be encouraged to increase the use of their facilities both for classes, rehearsals, and public events, e.g. seminars, recitals, master classes, etc., where the premises permit. Through these Academy's public events, the Béthanie venues can be more effectively promoted to the public and potential hirers. The HKAPA also plans to introduce new measures to promote the hiring/usage of the venues/facilities, such as revamping the venue charging rates and promoting the upgraded projection screen and cinema sound system at the Wellcome Theatre starting from mid-2016. It will also introduce new hiring packages for rental of the Sir Y K Pao Studio and the Chapel with a view to enhancing utilization of both venues.

9.4 As stated in the Audit Report, the existing Wanchai campus buildings were completed in 1980s and were originally designed to house 600 full-time students only. The total number of FTE students had significantly increased over the years (as referred to in paragraph 1.2 above, the total number of FTE students as at October 2015 was 1197, assuming that each part-time is counted as 0.5 FTE student). The completion of the current expansion and improvement project of the Wan Chai Campus will provide an additional construction floor area of 9,757 m², which will partly relieve the problem of space shortage. As stated in HAB’s response in the Audit report, HAB will review the basis on which space requirements for the HKAPA should be assessed having regard to all relevant factors including the nature of the programmes, performance/production requirements, and other teaching and learning needs before planning for any future expansion project.
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<td>7 (HKAPA)</td>
<td>(Paragraph 4.29 refers) In 2014-15, the HKAPA disposed of 981 items of fixed assets at a total cost of $18 million, including 118 items of fixed assets reported loss at a total cost of $707,000. What are the causes? Are there any targeted improvement measures available?</td>
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<td>The 2014-15 exercise was a triennial physical check conducted by the HKAPA. Among the fixed assets disposed, majority of them no longer met operational needs or were beyond economic repair; while a small percentage of the fixed assets disposed were items reported loss. As stated in HKAPA’s response in the Audit report, the Academy is enhancing the guidelines and procedures on fixed asset management with a view to stepping up management and control of fixed assets. Physical check on fixed assets will be conducted by School/Department annually to keep proper record on fixed assets. The HKAPA will also improve the procedures to ensure timely return of items on loan.</td>
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<td>6 (HAB)</td>
<td>(Paragraphs 5.3-5.13 refer) In 2012, the Legislative Council (LegCo) approved a funding of about $440 million for the HKAPA to carry out its Wanchai Campus expansion project. The project was originally scheduled for completion in December 2015. However, given that the construction cost exceeded the estimated funding, the project is now re-scheduled for completion by in December 2017, i.e. two years behind the original schedule. The HKAPA and the HAB agreed on their own to reduce the project scale by 1132m² or 10%, without notifying the LegCo afterwards. Although this is conducive to a reduction of the project cost of $68 million, a two-year project delay will result in additional rental of $4 million. As the LegCo, the authority making the original approval, was not notified of the procedures adopted in reducing the scale of the project, is such a practice in line with the relevant requirements according to the Government’s relevant practical guidelines on financial management? If not, what should be the correct handling procedures? Moreover, the delay of the project and its reduction in scale may subsequently affect the operation of the HKAPA? What are the measures taken to minimise the impact on the HKAPA’s delivery of its academic programmes and other services during the construction period? How will the Government ensure that there will be no more cost overruns and delay of the Wanchai Campus expansion project?</td>
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## Question 8

(HKAPA) (Paragraphs 5.3-5.13 refer) In 2012, the LegCo approved a funding of about $440 million for the HKAPA to carry out its Wanchai Campus expansion project. The project was originally scheduled for completion in December 2015. However, given that the construction cost exceeded the estimated funding, the project is now re-scheduled for completion by December 2017, i.e. two years behind the original schedule. The HKAPA and the HAB agreed on their own to reduce the project scale by 1,132 m² or 10%, without notifying the LegCo afterwards. Although this is conducive to a reduction of the project cost of $68 million, a two-year project delay will result in additional rental of $4 million. The delay of the project and its reduction in scale may subsequently affect the operation of the HKAPA. What are the measures taken to minimise the impact on the HKAPA’s delivery of its academic programmes and other services during the construction period? How will the Government ensure that there will be no more cost overruns and delay of the Wanchai Campus expansion project?

## Response 11

11.1 In delivering the OCE project, HAB is mindful of the need to observe relevant provisions of the Financial Circular No. 3/2012 on Capital Works Programme. Where the approved scope of a project requires a substantial change, the lead Director of Bureau should seek approval from the PWSC and FC. According to the Circular, substantial change includes all changes causing an increase in approved project estimate (APE) by more than $15 million or changes which, albeit not increasing the APE by more than $15 million, constitutes a significant deviation from the scope of the project approved by FC.

11.2 The main objective of the cost containment proposal was to contain the OCE project cost within the APE approved by FC. Under the proposal, the component to construct a one-storey lightweight structure on the roof of the Theatre Block was not pursued, resulting in a reduction of the original total construction floor area (CFA) of 10,889 m² of the entire campus improvement & expansion project by about 10% (i.e. 1,132 m²).

11.3 Since the key elements of the OCE project, i.e. the construction of the nine-storey building block and an additional floor over the existing Scenic Art Workshop at the Theatre Block, as well as other deliverables will continue to be implemented, the 10% reduction in total CFA will not affect the delivery of the intended functions of the OCE project. In view of the scale of change which also does not entail an increase in APE, the Government is of the view that the cost containment proposal does not constitute a substantial change to the scope of the
According to prevailing provisions of the FC Circular, implementation of such change does not require approval from PWSC or FC of the Legislative Council. With FSTB’s consent, we consider it appropriate for the HKAPA to proceed with the capital works project based on the cost containment proposal.

11.4 The construction project is targeted to be completed by end 2017. We have issued an information note to the LegCo Panel on Home Affairs in March 2016 to keep members posted on the progress of the works project.

11.5 On the provision of service during the construction period, HKAPA has worked out alternative space arrangements before the commissioning of new facilities so that the requisite hardware requirements for its delivery of academic programmes would not be compromised because of the project delay. Parts of the OCE project, including the conversion works of the existing fountain pump room and the redesign/reconfiguration of the existing library, have been completed and the new facilities (including office and storage space for the Internal Audit and Administration departments provided in the pump room project; and research consultation rooms, information commons, learning commons and seminar rooms in the reconfigured library) have already been completed and put into use in February 2014 and November 2015 respectively.

11.6 Construction of the new building block under the OCE project has been progressing well and the project is targeted to be completed by end 2017. To prevent further delay, HKAPA has stepped up the monitoring of critical path and milestone dates of the contractor’s programme, and is maintaining proactive liaison with its consultant and contractor. For example, weekly technical meetings with contractor have been held to identify and resolve critical issues which might adversely affect the project cost and programme, and HKAPA has also enhanced coordination with the contractor for early submissions of materials such as complicated works procedures for early review and approval. HAB will continue to closely monitor the progress of the project through quarterly reports from HKAPA and close liaison with the project team.
Part 2: Monitoring Work of Registered Persons

1. According to para. 2.12(b), if a registered contractor has received three or more warning letters within a 12-month period, the EMSD may refer the case to the DEVB but would carry out a preliminary review of the case first (para. 2.16(a)). In this connection, would the EMSD inform this Committee:

   a) In general, how long will it take for the EMSD to carry out the review after issuing warning letters to the concerned registered contractor;

   b) If the registered contractor under warning has rectified relevant problems before the EMSD carries out a review, will the EMSD continue to proceed the review;

   c) If the registered contractor under warning has not rectified relevant problems when the EMSD carries out a review, will the EMSD refer the case to the DEVB upon completion of the review; in general, when will the EMSD make the decision in referring the case to the DEVB;

Answer: The following are the consolidated responses to items (a), (b) and (c):

As described in para. 2.12(a) of the Audit Report, the EMSD will issue a warning letter to a registered contractor (RC) if, during an EMSD site inspection, a safety-related non-compliance issue is found, or 12 PM points or more are accorded to the RC. The RC should improve its performance in accordance with the warning letter.

In order to strengthen the regulation of RCs’ performance, the EMSD adopts administrative measures to timely carry out review of RCs which have received 3 or more warning letters within the past 12 months by assessing the severity of the non-compliances of the RCs and to refer serious cases (e.g. misconduct or neglect in professional respect) to the DEVB for arrangement of disciplinary board hearings. When conducting a review, the EMSD will determine whether to refer the case to the DEVB with due consideration on the accountability and the severity of the non-compliances of the RC in the cases mentioned in the warning letters. The EMSD
will not consider the progress or status of relevant improvement or rectification measures taken by the RC.

Regarding Audit Commission’s recommendations about taking disciplinary actions against RCs, the Disciplinary Action Review Panel of the EMSD (“DAR Panel”) will carry out review of the RCs which have received 3 or more warning letters within the past 12 months after assessment of the Contractors’ Performance Rating in each quarter.

d) According to para. 2.13, RC1 had received 3 warning letters within a 4-month period and RC7 had received 4 warning letters within a 3-month period. Were these RCs warned against the same issue? Please provide the items that they were warned against;

f) According to Table 1, RC1 had not been reviewed by the Disciplinary Action Review Panel of the EMSD as at 31 December 2015. What is the reason?

Answer: The following are the consolidated responses to (d) and (f):

For RC1, there were two warning letters related to its failure in properly maintaining the brakes of two respective escalators in a building in Shu Kuk Street, North Point, and one warning letter was related to its failure in arranging sufficient manpower to carry out lift works in a building in Mong Kok. The EMSD has carried out prosecution actions against RC1 in 2013 in relation to the case in Shu Kuk Street, North Point. RC1 was subsequently convicted and fined, and details were stated in para. 2.11(a) of the Audit Report. Upon the completion of prosecution actions against RC1, the EMSD had consulted with the Department of Justice on the initiation of disciplinary actions against RC1. The Department of Justice advised the EMSD in August 2015 that it should consider the verdict of the Court against RC1 and make reference to previous disciplinary hearings in order to decide whether to initiate disciplinary actions against RC1. After due consideration of the Court’s decision and previous disciplinary hearings, the DAR Panel decided not to initiate disciplinary actions against RC1 in the meeting held in February 2016.

For RC7, the warning letters issued by the EMSD were related to emergency alarm device, emergency lighting and car door operating issues of four lifts. The content of the warning letters did not involve any safety components or safety equipment. The DAR Panel has reviewed the case involving RC7 in February 2016, and decided
not to initiate disciplinary actions against RC7.

e) In case there is an RC receiving more than 4 warning letters within a short period of time, will the EMSD expedite the review in order to refer the case to the DEVB for establishing a disciplinary board to conduct hearing;

Answer: In order to timely process the cases involving RCs receiving excessive warning letters within a short period of time, the DAR Panel will carry out review of the RCs which have received 3 or more warning letters within the past 12 months after assessment of Contractors’ Performance Rating in each quarter, and to refer serious cases to the DEVB for arrangement of disciplinary board hearings. For those RCs which have received 4 or more warning letters within a short period of time, the EMSD will expedite the review and step up the inspections of these RCs in order to monitor their performance.

2. According to para. 2.19(b) regarding the EMSD’s responses, will the EMSD issue warning letter instead of according PM points when the severity of the case reaches a certain level. If affirmative, what is the level of severity of the case when the EMSD issues warning letter instead of according PM points. Is there any relevant internal guideline to follow? Had the concerned registered contractor mentioned in para. 2.18 proposed to the EMSD to issue warning letter instead of according PM points.

Answer: As mentioned in para. 2.8 of the Audit Report, 2 to 15 PM points would be accorded to RCs for non-compliance items found during the EMSD site inspection or discovered in other circumstances in accordance with the non-compliance items list of the Performance Assessment Scheme. The points reflect the level of poor performance of the RCs when carrying out lift/escalator works. If the identified non-compliance items are not covered in the Performance Assessment Scheme, the EMSD will not be able to accord PM points to the concerned RCs. Under such circumstances, the EMSD will take appropriate administrative measures, such as issuing warning letters to alert the RCs regarding the concerned issues and request for taking appropriate actions to rectify the non-compliance condition. Regarding the case as mentioned in para. 2.18, since the non-compliance items were not covered in the Performance Assessment Scheme, the EMSD thus issued warning letters to the concerned RCs (RCs 8 & 9). In this case, RCs 8 & 9 had not suggested the EMSD issue warning letters instead of according PM points. The EMSD will regularly review the Performance Assessment Scheme in order to incorporate all significant non-compliance items of RCs into the scope of the Scheme.
3. Had the EMSD urged RCs 18, 19 and 20 (para. 2.29) to submit the handover examination reports; if affirmative, how many times had these 3 contractors been urged, and by what means did the EMSD urge them. Could the EMSD provide relevant record; if negative, what is the reason.

Answer: The Code of Practice for Lifts Works and Escalator Works ( "the Code") issued by the EMSD mainly provides guidance to the trade practitioners. Section 5.4.5(b) of the Code recommends RCs arrange a thorough examination of the lifts/escalators within two weeks' time from overtaking the maintenance works of these lifts/escalators, and to submit to the EMSD a duly completed thorough examination report for record purpose. However, the Code only serves as guidance to the responsible persons of lifts/escalators and RCs to set aside resources to arrange examination of the lifts/escalators so as to minimize possible contractual disputes upon discovery of defects after the handover period. Such examination is not a legal requirement. In addition, on top of the recommendations stated in the Code, the EMSD has taken a step forward and established a handover checklist, and suggests the responsible persons of lifts/escalators and registered contractors use the checklist during the handover period of the lifts/escalators. The checklist has been uploaded to the EMSD website.

Since the carrying out of handover examination within 2 weeks’ time is a recommendation in the Code but not a legal requirement, the EMSD in general will not urge relevant parties to submit the examination report. As such, the EMSD did not urge RCs 18, 19 and 20 to submit the relevant handover examination reports.

4. Para. 2.36 indicates that there are currently 302 out of 332 registered engineers being employed by registered contractors. Please inform whether the remaining 30 registered engineers are employed by the EMSD. If affirmative, what are their main duties; If negative, by whom are they employed. Should the EMSD monitor the 302 registered engineers employed by the registered contractors via its own registered engineers; Does the EMSD consider that the existing manpower for monitoring the registered engineers sufficient.

Answer: Currently, there are 302 out of 332 registered engineers employed by RCs, while the remaining 30 registered engineers are self-employed or employed by other organizations which are not RCs, for example, consultants related to lift and escalator engineering and educational institutions. The Lifts and Escalators
Ordinance (the “Ordinance”) has no provision that monitoring work of registered engineers shall be performed by registered engineers. All professional engineers of the EMSD are Corporate Members of the Hong Kong Institution of Engineers or equivalent responsible for carrying out the enforcement works of the Ordinance, including monitoring of the performance of registered lift/escalator engineers. The EMSD considers that the existing team of professional engineers has appropriate professional qualifications and experience to carry out the enforcement works of the Ordinance. The EMSD will also keep reviewing its manpower resources and to redeploy available resources in accordance with operational needs for monitoring of the performance of registered engineers.

5. Para. 2.47(a) indicates that a registered engineer with the assistance of supporting workers could have adequate time to examine up to eight lifts on a single day; para. 2.47(b) indicates that the EMSD adopted “nine lifts or more on a single day” as the current benchmark for follow-up action. In this connection, would the EMSD inform this Committee:

a) Para. 2.45 mentions that there were 27 occasions when 1 registered engineer had conducted lift examination works on 8 lifts on a single day. Were the registered engineers assisted by supporting workers;

Answer: It requires two or more persons to carry out and complete certain works in a lift examination. Therefore, regardless of the number of lift examined, all registered engineers require assistance from supporting workers to carry out the works during their examination. Otherwise, the examination works could not be completed.

b) For Para. 2.45, why did the EMSD only request 4 of the registered engineers who have conducted excessive lift/escalator examination works to provide explanations, but not requested the remaining 58 registered engineers who have conducted excessive lift/escalator examination works to provide explanations? How many lift/escalator examination works had those 4 registered engineers conducted?

c) Had all the 58 registered engineers mentioned in para. 2.46 conducted examination works for less than 9 lifts in a single day;
Answer: The following are the consolidated responses to (b) and (c):

When a registered engineer signs the safety certificates for nine or more lifts within the same day, the EMSD will request him to explain how the examination work can be completed within the same day. That is the reason why EMSD requested the four registered engineers to provide explanations. The other 58 registered engineers only signed safety certificates for eight or less lifts within the same day which did not exceed the limit set by the EMSD for taking follow-up actions.

\[d\] Does "up to 8 lifts" in the statement "there is adequate time to examine up to 8 lifts on a single day" indicated by the EMSD refer to the maximum number acceptable by the EMSD under all circumstances; Is there any exceptional condition that is acceptable by the EMSD. If affirmative, what is the reason:

Answer: The statement "there is sufficient time to examine up to 8 lifts within the same day" indicated by the EMSD refers to the general situations that the EMSD considers reasonable and does not require follow-up actions. Under certain circumstances (such as adopting overtime works or the design and structure of the concerned lift is relatively simple), the EMSD will consider the cases, which "examine 9 or more lifts within the same day", are acceptable if the registered engineers provide reasonable explanations.

\[e\] Owing to the excessive lift examination works carried out by registered engineer on a single day, would the EMSD consider that the registered engineer had failed to appropriately and completely carry out the statutory duties as listed in para. 2.36? If there is any registered engineer who had failed to appropriately and completely carry out the statutory duties, will the EMSD take any prosecution actions. If affirmative, please inform the details;

Answer: The EMSD considers that the quality of examination may be affected, for example, insufficient time to complete certain part of the examination procedures, when a registered engineer has carried out examination for excessive lifts on the same day. The EMSD will carry out follow-up investigation on these cases. In addition, the EMSD will monitor the quality of examination through surprise checks. If it was found that the registered engineers had failed to fulfill their statutory duties, appropriate enforcement actions, such as prosecution, disciplinary actions, would be taken.
f) Will the EMDS follow the Audit Commission’s recommendation in para. 2.48 to issue guidelines on the maximum number of lift/escalator to be examined and certified by a registered engineer on a single day, and take follow-up actions on the registered engineers who regularly perform excessive number of examinations on a single day?

Answer: The EMSD will actively consider the Audit Commission’s recommendation and will consult with the trade to study on issuing guidelines to specify the maximum number of lifts and escalators to be examined and certified within a day in general. It will also take follow-up actions for those registered engineers who have regularly carried out excessive examinations within a day.

6. For the cases as quoted in Para 3.19, please clarify whether the EMSD is aware that the 3 lifts/escalators, in which the prohibition order (“PO”) were issued one to three days after the use permit expiry date, had not been used or operated without a valid use permit in force; and whether the EMSD followed the procedure as stated in Para 3.17 of the Audit Report to handle the above-mentioned cases.

Answer: According to the EMSD’s records, the operation of the lifts/escalators involved in the cases as quoted in Para. 3.19 had already been suspended prior to expiry of the use permits. For the case involving two lifts at the same location, the responsible person of the lifts had appointed a registered lift engineer to examine these lifts before expiry of their use permits. Based on the examination findings, the registered lift engineer considered that these two lifts were not in safe working order due to the lift car platform was seriously rusted and immediately ceased the operation of these two lifts. The registered lift engineer also submitted a written notification to the EMSD about the situation before expiry of the use permits. The EMSD confirmed that the operation of the concerned lifts had already ceased before expiry of the use permits. Another case involved an escalator in which the EMSD confirmed that the escalator service had already been suspended for repair prior to expiry of the use permit. The EMSD had followed the procedures as summarized in Para 3.17 of the Audit Report in handling the above-mentioned cases, which include:
(a) Sending reminder cards to Responsible Persons (“RPs”) two months and one month respectively before the permit expiry dates;
(b) Reminding RPs by telephone two weeks before the permit expiry dates; and
(c) Issuing prohibition orders (“POs”) to ensure that the concerned lifts/escalators are not put into use when no valid use permits are in force.
7. According to Table 5, would the EMSD please explain why the POs for the 36 lifts/escalators were issued after the maintenance services of the concerned installation had been terminated for 34 days to 298 days? For the 21 lifts/escalators, would the EMSD please explain why PO had not been issued by end December 2015 and inspection were only arranged in January to February 2016? Did the EMSD know and how did the EMSD ensure the 57 lifts/escalators as quoted in Table 5 of the Report were at low risk level?

8. According to Table 6, the Audit Commission sample checked 50 POs and noted the concerned POs were not issued before the effective date of the POs. Would the EMSD please clarify whether this is the normal practice of the EMSD? Is there any difficulty to issue PO before the effective date of the PO?

Answer: The following are the consolidated responses to Q7 & Q8:

The Ordinance was implemented in December 2012. It has introduced a series of new and enhanced legal obligations and liability for RPs. According to the Ordinance, a person shall not use or operate a lift/escalator under any of the following situations: (a) no valid use permit being in force; (b) major alteration/repair/demolition of the lift/escalator being carried out, or (c) the RP does not arrange periodic maintenance works for the lift/escalator at least once a month. In any event under the aforesaid situations, it is the statutory obligations of RPs to ensure that their lifts/escalators are not used or operated, and it is a statutory offence if RPs allow the use or operation of their lifts/escalators. In the initial stage of implementing the Ordinance, the EMSD has not only carried out a series of publicity work for RPs, but also taken proactive measures to prevent them from committing offences under the new Ordinance through issuing POs to ensure that their lifts/escalators are not used or operated under the aforesaid situations. It is not a statutory requirement for the EMSD to issue POs to RPs in all the said situations. With enhanced knowledge and awareness of RPs on their statutory obligations under the Ordinance, the EMSD will review the necessity of continuing with the above-mentioned proactive approach currently adopted and will take appropriate enforcement actions against RPs who have not properly discharged their duties under the Ordinance.

According to the EMSD’s records, the RPs of the 36 lifts involved in the cases as quoted in Table 5 of para. 3.22 had already suspended the services of the concerned lifts and the maintenance services of the installations were subsequently suspended.
Hence, there was no contravention of the Ordinance. Amongst those 36 lifts, five of which were under major alteration works and the lift services were suspended during the period of the alteration works. For the remaining 31 lifts installed in a new estate at Yuen Long, the estate remained unoccupied and all the lifts were not in service.

For the 21 cases as quoted in Table 5 of para. 3.22, the RPs of the lifts/escalators involved in 12 of the cases had suspended the services of the concerned lifts/escalators and the maintenance services of the installation were subsequently suspended. Hence, there was no contravention of the Ordinance. Amongst those 12 cases, the services in 10 cases (involving 10 escalators) were suspended as the buildings were under renovation. One case involved an escalator in which the service had already been suspended waiting for repair. Another case involved a lift in which the service had already been suspended as the building owner had terminated the business and the premise was unoccupied. For the remaining 9 cases, the EMSD had verified with the respective registered lift contractors and the associated log book record were also checked during site inspections. The EMSD noted that although the concerned RCs were still liaising with the RPs on the new maintenance contract provision after expiry of the existing contracts, the RCs had continued with the monthly mandatory routine maintenance services for the concerned lifts/escalators such that the normal operation of these lifts/escalators were not affected. Hence, these 9 cases also did not involve any contravention of the Ordinance and issuance of PO was considered not necessary.

Upon receipt of the notification of termination of maintenance contract from the registered lift/escalator contractor, the EMSD would confirm the status of the concerned lift/escalator by directly contacting the RP of the lift/escalator in accordance with the enforcement practice of the EMSD. Hence, the EMSD confirmed there was no contravention of the Ordinance for the 57 lifts/escalators as quoted in Table 5. As it was actually unnecessary to issue POs to RPs in the said situation, the EMSD did not issue POs for all cases. The exact date of issuance of POs would also be subjected to the operational arrangement of the EMSD.

Table 6 summarized the 50 cases on POs issuance as sample checked by the Audit Commission. There was a case in which the PO was issued on the effective date of the PO. The lifts/escalators involved in the remaining 49 POs were under major alterations and the services were suspended. As it was actually unnecessary to issue POs to RPs in the said situation, the EMSD did not issue POs for all cases. The
exact date of issuance of POs would also be subjected to the operational arrangement of the EMSD.

9. Please provide the numbers and details of the non-reportable lift/escalator incidents that had come to the EMSD notice through the public’s reporting or media reports in 2015. According to para. 3.36(b), certain non-reportable incidents may pose safety risk problem. Does the EMSD plan to classify certain non-reportable incidents as reportable incidents? If affirmative, please inform the details and time table.

Answer: In 2015, a total of 69 non-reportable lift/escalator incidents were notified to the EMSD either through the public’s reporting or media reports. The cases were mainly due to smoke incident due to overheat of machinery, damages of lift/escalator equipment, passenger entrapment etc. No passenger injury or failure of safety equipment was involved in these cases. The EMSD conducted investigation according to the situation of respective cases.

The EMSD agreed to the recommendation from the Audit Commission and would regularly carry out review to consider classifying those non-reportable lift/escalator incidents which might pose significant safety risk to passengers as reportable incidents under the Ordinance.

10. For Part 4, how many management information systems does the EMSD currently use to manage the lift and escalator information. Will the upgrading and integration of different information systems help develop a complete integrated information management system to replace the existing systems that are being used simultaneously? Please provide details of the concerned upgrading and integration plan and time table.

Answer: The information of lifts and escalators as mentioned in the Audit Report includes lift/escalator inspection records and lift/escalator model and manufacturer names. Before 2015, apart from the Lift and Escalator Ordinance System, the lift/escalator inspection records were kept in different data management systems. From January 2015 onwards, all relevant lift/escalator inspection records have been input and maintained in the Lift and Escalator Ordinance System. The lift/escalator model and manufacturer names are also being progressively input to the Lift and Escalator Ordinance System and the entire work is targeted to be completed by end 2016.
Response to Public Accounts Committee’s (PAC) questions on
Chapter 7 of the Director of Audit’s Report No. 66
Dedicated Fund on Branding, Upgrading and Domestic Sales

This note sets out FSTB’s response to two questions raised in the
letter dated 12 May 2016 from the Clerk to PAC.

Question (1): According to paragraphs 2.26 and 2.27, FSTB and the
Commerce and Economic Development Bureau (CEDB) held a
different view as to whether the engagement of the Hong Kong
Productivity Council (HKPC) should be considered as partnership or
service procurement. In this connection, what factors have been
considered by FSTB to determine the nature of engagement, and the
weighting of these factors?

2. The Controlling Officer has the authority and responsibility for
determining the most appropriate and cost-effective mode (procurement
or partnership etc.) of engaging a non-Government partner to provide
secretariat support for the Enterprise Support Scheme (ESP) under the
dedicated fund on Branding, Upgrading and Domestic sales (BUD fund).

3. FSTB’s view aligned with that of CEDB in considering the
latter’s engagement of HKPC as a partnership instead of procurement.
In April 2012, we raised the question with CEDB on the mode of
engaging HKPC as the implementation partner of the ESP primarily for
the purpose of reminding CEDB to carefully deliberate on adopting either
the procurement or partnership mode in selecting an implementation
agent. In response to our enquiry, CEDB indicated that their
engagement of HKPC as the Secretariat of ESP was not a procurement of
service, but a partnership arrangement having regard mainly to the
following considerations-

(a) Taking into account the operational nature of ESP and its target
beneficiaries, the expertise required, and cost effectiveness of
different delivery modes as well as the experience of
Environment Protection Department in engaging HKPC as the
implementation partner of the Cleaner Production Partnership
Scheme, CEDB considered HKPC the most appropriate
organization for the purpose; and

(b) Of the total administrative cost required, HKPC agreed to contribute around $17 million (around 23%) in terms of professional manpower support, venue rentals and other ancillary technical and support services, while the Government would only need to contribute $56 million (around 77%). This cost-sharing arrangement did not match with the nature of service procurement.

4. With the above explanation, FSTB considered CEDB’s decision to adopt the partnership mode in engaging HKPC for implementing the ESP reasonable. We then reminded CEDB to clearly and properly document the considerations underlying this decision for record.

5. The above deliberations are consistent with the relevant guidelines set out in the Financial Circular (FC) No. 2/2015 (which superseded the then FC No. 8/2004) on the management of funding schemes and non-works projects funded by the Government. Apart from the overriding principles for ensuring fiscal prudence, the FC promulgates guidelines on ‘who the non-government partner should be and how it should be selected’ for observation by the Controlling Officers. They also include the requirement that “where the Controlling Officer is satisfied that the engagement of a non-government partner to administer the project does not constitute procurement of service or good and is not subject to the Store and Procurement Regulations, the relevant considerations and decision should be clearly and properly recorded” (paragraphs 2.1 to 2.3 of Annex B to FC Circular No 2/2015).
Question (2): According to paragraph 2.33, HKPC charged the Government the implementation fee at the more expensive L3 rates instead of L8 rates. Will the Administration inform this Committee whether FSTB and CEDB had unanimously accepted this arrangement?

6. In engaging an implementation agent to take forward an initiative (BUD fund is a case in point), it is the relevant Controlling Officer and/or executing department who is responsible for deliberating and negotiating with the agent on the funding arrangements to the best interest of the Government. It is not necessary or practicable for FSTB to be involved in the details of such negotiations.

7. For this specific case, in processing the funding proposal on the BUD Fund for submission to the Finance Committee of the Legislative Council in 2012, we had reviewed the cost breakdown of the $56 million to be contributed by the Government and considered it reasonable. According to CEDB, Government’s contribution of $56 million was meant to enable HKPC to recover the full staff costs and overheads (other than the $17 million contributed by HKPC as a partner in terms of professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services). As set out in the concerned paper submitted to the Finance Committee of the Legislative Council (FCR(2012-13)22), the Government’s contribution comprised 43% for project monitoring, 30% for programme management, as well as 27% for programme leadership and co-ordination.

Financial Services and the Treasury Bureau
May 2016
Public Accounts Committee
Consideration of Chapter 7 of the Director of Audit's Report No. 66
Dedicated Fund on Branding, Upgrading and Domestic Sales

Proposed Answers to PAC’s written questions received on 12 May 2016

Part 2: Overall Management

**CEDB Q1**
According to paragraph 2.3 and Tables 2 and 3, as at 31 October 2015, more than three years after the commencement of the Dedicated Fund on Branding, Upgrading and Domestic Sales (“BUD fund”) in June 2012, the number of approved projects and the amount of approved funding for both the Organization Support Programme (“OSP”) and Enterprises Support Programme (“ESP”) were lower than estimated. Can the Administration explain the reason(s)? What action has the Administration taken to encourage trade and industrial organizations/enterprises to submit more applications? What action will the Administration take to improve the success rate of OSP and ESP applications?

**HKPC Q1**
According to paragraph 2.3 and Tables 2 and 3, Audit noted that as at 31 October 2015, more than three years after the commencement of BUD Fund in June 2012, the number of approved projects and the amount of approved funding for both OSP and ESP were lower than estimated. Can you explain the reason(s)? What action has Hong Kong Productivity Council (“HKPC”) taken to encourage trade and industrial organizations/enterprises to submit more applications? What action will “HKPC” take to improve the success rate of OSP and ESP applications?
For budgetary planning purpose in 2012, it was assumed that half of the $1 billion commitment would be for ESP, and half for OSP. Taking further into account that $60 million would be disbursed to the HKPC for implementation of ESP, about $500 million would be provided for ESP applications while the remaining $440 million would be provided for OSP applications. Assuming each enterprise would receive the maximum amount of funding support of $500,000, it was then assumed that about 1 000 enterprises could directly benefit from the BUD Fund. As regards OSP, assuming that each approved application received the maximum funding of $5 million, it was roughly estimated that around 90 projects could be funded. The number of enterprises to be benefitted under ESP and the number of projects to be benefitted under OSP so calculated only represent the maximum number of enterprises/projects that can be funded if all of them receive the maximum amount of grant. It is not an estimated number of projects which will be approved. In reality, the number of benefitted enterprises/projects depends on various factors including the number of applications approved after the vetting process, the amount of funding approved, the nature and scale of the approved projects, etc.

On ESP, HKPC has all along been mounting intensive promotional efforts to encourage more applications, particularly since the launch of ESP Easy in late August 2015. From June 2012 to March 2016, HKPC organised and participated in 151 seminars and events in Hong Kong and the Mainland. These seminars and events attracted over 9,400 participants. The intensive publicity efforts resulted in a significant increase in the number of ESP applications in Q3 (October – December) 2015/16 and Q4 (January – March) 2015/16 (being 184 and 151
respectively) when compared to 77 and 90 in the preceding Q1 (April – June) 2015/16 and Q2 (July – September) 2015/16 respectively.

The ESP Secretariat has been assisting applicants in submitting applications with a view to improving the quality of applications, such as providing even clearer guidelines on the application form, organising and participating in seminars and events as mentioned above, and conducting 418 one-to-one consultation sessions to advise interested enterprises on making applications (see paragraph 2.17 of the Audit Report). The success rate of ESP applications has indeed been increasing over the past few years as shown in Table 5 of the Audit Report (28%, 32% and 43% for 2012-13, 2013-14 and 2014-15 respectively). The success rate for 2015-16 (April to December 2015) stood at 84%. This is the highest rate so far. We will continue to monitor closely the situation and will take any further measures as necessary.

Likewise for OSP, Trade and Industry Department (“TID”) has all along been monitoring the number of applications received and has undertaken promotion efforts and support measures with a view to encouraging more applications. Seminars/events have been conducted. Dedicated OSP promotional letters were sent to trade and industrial organisations with rejected or withdrawn applications in May 2014. Another round of these letters went out in January 2016 to over 480 trade and industrial organisations known to TID.

We have been providing one-to-one consultation to potential applicants under OSP. Detailed rejection reasons are also provided to unsuccessful applicants. As of end December 2015, the OSP Secretariat has handled over 2,020 enquiries and
conducted about 130 one-to-one consultation meetings with trade and industrial organisations, professional bodies and research institutes interested in submitting applications.

In the light of the audit recommendations, TID will further enhance promotion efforts by sending promotional letters more frequently, outreaching to trade and industrial organisations which have not applied before. We will highlight our one-to-one consultation in our future promotion. We will also adopt a more targeted approach to discuss with applicants with rejected applications in order that proposals can be revised and re-submitted quickly.

**CEDB Q2**
According to paragraph 2.4 (Table 1), "Branding + Domestic sales" was the most popular project nature among others. Was that the result of publicity strategy of the Administration? Will the Administration inform this Committee whether the resources for promotion and publicity were evenly allocated for each of the project natures; if the answer is negative, the reason(s) for that?

**TID Q1**
According to paragraph 2.4 (Table 1), "Branding + Domestic sales" was the most popular project nature among others. Was that the result of publicity strategy of the Administration? Will the Administration inform this Committee whether the resources for promotion and publicity were evenly allocated for each of the project natures; if the answer is negative, the reason(s) for that?

**HKPC Q2**
According to paragraph 2.4 (Table 1), "Branding + Domestic sales" was the most popular project nature among others. Was that the result of publicity strategy of the Administration/HKPC? Will the Administration/HKPC inform this Committee whether the resources for promotion and publicity were evenly allocated for each of the project natures; if the answer is negative, the reason(s) for that?
natures; if the answer is negative, the reason(s) for that?

The BUD Fund was promoted to the public as a whole and not segregated by project nature. The project nature of the projects reflected the strategies of the applicant enterprises/organisations in developing the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland. It is up to the applicants to decide and design the project elements to suit their need.

**CEDB Q3**
According to paragraph 2.9 (Table 4), the number of OSP and ESP applications withdrawn before assessment stood at 16.3% and 21.1% respectively. Will the Administration inform this Committee whether the applicants withdrew the application on their own initiative, or they were urged to withdraw their applications by the OSP and ESP Secretariat? In what circumstance will the OSP and ESP Secretariat urge the applicants to withdraw their applications?

**TID Q3**
According to paragraph 2.9 (Table 4), the number of OSP and ESP applications withdrawn before assessment stood at 16.3% and 21.1% respectively. Will the Administration inform this Committee whether the applicants withdrew the application on their own initiative, or they were urged to withdraw their applications by the OSP and ESP Secretariat? In what circumstance will the OSP and ESP Secretariat urge the applicants to withdraw their applications?

**HKPC Q4**
According to paragraph 2.9 (Table 4), the number of OSP and ESP applications withdrawn before assessment stood at 16.3% and 21.1% respectively. Will the
Administration/HKPC inform this Committee whether the applicants withdrew the application on their own initiative, or they were urged to withdraw their applications by the OSP and ESP Secretariat? In what circumstance will the OSP and ESP Secretariat urge the applicants to withdraw their applications?

For both ESP and OSP, all of the withdrawn applications as shown in Table 4 of the Audit Report were withdrawn by the applicants of their own accord. Reasons for withdrawal mainly are: applicants’ internal management decision, applicants’ failure to provide required supplementary information before the deadline, ineligibility of applicants (such as failure to show direct relationship with the Mainland entity quoted by the applicants on the application form, insufficient proof of business operation in Hong Kong), etc.

CEDB Q4
Para 2.10 (Figure 2) in the Audit Report shows the number of ESP applications received and promotion events during June 2012 to June 2015. Will the Administration inform this Committee whether it agrees on the causal relationship between these two factors that more promotion events will bring about a higher number of ESP applications? Has the Administration set any cap of resources to be allocated for promotion and publicity? What are the reasons for the declining number of promotion events since June 2012?

HKPC Q5
Para 2.10 (Figure 2) in the Audit Report shows the number of ESP applications received and promotion events during June 2012 to June 2015. Will the Administration/HKPC inform this Committee whether it agrees on the causal relationship between these two factors that more promotion events will bring about a higher number of ESP applications? Has the Administration/HKPC set any cap of
resources to be allocated for promotion and publicity? What are the reasons for the declining number of promotion events since June 2012?

As set out in FCR(2012-13)22, a total of $4.8 million ($3.2 million from Government funding and $1.6 million from HKPC contribution) has been designated for promotion and publicity of the programme over five years. The ESP Secretariat is required to submit to the Programme Management Committee (“PMC”) for approval an Annual Implementation Plan setting out, amongst others, the planned activities, including promotion and publicity activities, and proposed manpower arrangement for the coming year.

Promotion and publicity are one of the factors affecting the number of applications. Other factors, such as the macro economic environment, market situation of specific industry, business strategy of individual enterprises, etc. are also relevant. While the promotion and publicity measures can enhance the public awareness of the BUD Fund, it relies heavily on the coaching and consultation, which involve substantial manpower, provided by the ESP Secretariat for potential applicants to boost the number of applications. Such manpower costs are not categorized under promotion and publicity.

The number of promotion events has not been declining. Steady efforts have been made for promotion and publicity of the ESP over the years. More intensive promotion was launched when the BUD Fund was first introduced in 2012, and when new initiative, such as ESP Easy, was introduced.

CEDB Q5
As indicated in the website of BUD Fund, enterprises which have been registered in Hong Kong and have had substantive business operations in Hong Kong for at least three years at the time of application are eligible to apply for "ESP Easy — Simplified Application Track". Will the
Administration consider relaxing the above requirement so as to increase the number of applications for ESP? If not, why not?

On top of the existing criteria of conventional ESP, the PMC consciously imposed an additional requirement under “ESP Easy” that the applicant enterprises must have been established and have substantive business operation in Hong Kong for at least three years at the time of application to ensure that the simplified track of application would benefit bona fide Hong Kong enterprises with sufficient operation experience.

CEDB Q6
According to paragraphs 2.26 and 2.27, Financial Services and the Treasury Bureau (“FSTB”) and Commerce and Economic Development Bureau (“CEDB”) held a different view as to whether the engagement of HKPC should be considered as partnership or service procurement. In this connection, what factors have been considered by CEDB to determine the nature of engagement, and the weight of these factors?

TID Q5
According to paragraphs 2.26 and 2.27, FSTB and CEDB held a different view as to whether the engagement of HKPC should be considered as partnership or service procurement. In this connection, what factors have been considered by the Administration to determine the nature of engagement, and the weight of these factors?

CEDB provided to FSTB in April 2012 relevant justifications to support that its engagement of HKPC to implement the ESP was not a procurement of service, but engagement of a non-government partner. The selection and engagement of HKPC were justified on the cost-effectiveness and the necessary experience and expertise of HKPC to administer the funding
scheme. As we pointed out in FCR(2012-13)22, developing brands, upgrading and restructuring business operations and promoting domestic sales in the Mainland market are specialised subjects requiring professional knowledge, and involve, inter alia, business plans and initiatives put forward by individual enterprises in specific industries and markets. Extensive professional input from an organisation which is close to the business sector, understands their needs and has the experience and expertise in assisting the Hong Kong enterprises in developing brands, upgrading and restructuring operations and promoting domestic sales in the Mainland is essential. In the light of its mission, and more importantly its expertise and experience in the Mainland market, the HKPC was engaged as a partner to implement the ESP of the BUD Fund and for this purpose, HKPC would contribute around $17 million in terms of professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services. CEDB had also made reference to another similar government funding scheme, the Cleaner Production Partnership Programme, which involved the engagement of HKPC by the Environmental Protection Department (EPD) as an implementation agent of the Programme.

**CEDB Q7**

According to paragraph 2.28, regardless of nature of engagement, the Controlling Officer should generally follow an open, fair and competitive bidding process so as to pick an agency for project implementation. Will CEDB provide details to show whether it adopted the above procedures before choosing HKPC as a partner?

As mentioned in our reply to CEDB Q6, the engagement of the
HKPC was not a procurement of services but a partnership arrangement to implement the ESP. CEDB has given due consideration on the partners to be engaged and having regard to the mission of HKPC and its expertise and experience in the Mainland market, CEDB considered that HKPC was the most suitable implementation partner for delivering the initiative. CEDB had separately consulted FSTB on engaging the HKPC as a partner in implementing the ESP of the BUD Fund. FSTB noted CEDB’s justifications for engaging the HKPC as a partner and reminded CEDB to properly document the considerations, justifications, specifications on deliverables as well as engagement agreement with the HKPC. The justifications for selection and engagement of HKPC as the implementation partner were set out in detail in the FC submission vide FCR(2012-13)22.

CEDB Q8
According to paragraph 2.33, HKPC charged the Government the implementation fee at the more expensive L3 rates instead of L8 rates. Will the Administration inform this Committee whether FSTB and CEDB had unanimously accepted this arrangement? Had CEDB discussed with HKPC on the feasibility of applying lower charging rates to ESP, though no relevant document is available; if there had been discussion between CEDB and HKPC, what was HKPC’s response then? Will the Administration continue to discuss with HKPC for using the lower charging rates to ESP?

CEDB noted that the HKPC worked out the resources requirement for the ESP in accordance to its internal pricing guideline, i.e. normally L3 rates is applicable to consultancy services (including, amongst others, secretariat services which the HKPC is providing for the ESP).
CEDB had discussed with the HKPC the overall level of the implementation cost and understood that it was meant to enable HKPC to recover the full staff costs and overheads (except for the $17 million contributed by HKPC as a partner). Having regard to the ESP Secretariat’s responsibilities which include, among others, promoting the BUD Fund, processing applications received, vetting applications, advising applicants in making applications, monitoring the progress of approved applications, and conducting promotion activities, CEDB had agreed with the HKPC for the disbursement of a total of $60 million (comprising $56 million for staff cost and overheads and $4 million for various publicity and promotional activities and other expenses) to the HKPC to cover the bulk of the expenses incurred for implementing the ESP of the BUD Fund; and in parallel, as the implementation partner to the Government in ESP, the HKPC is responsible for the rest of the relevant expenditures which amount to about $17 million in terms of professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services. Such principle of cost-recovery is in line with the precedent case of a similar arrangement between EPD and HKPC in implementing the Cleaner Production Partnership Programme (approved vide FCR(2007-08)47 in January 2008). The above implementation fee arrangement has been reflected in FCR(2012-13)22.

CEDB Q9
According to paragraphs 2.43 and 2.44, the cost of administering ESP had already amounted to some $55.3 million, representing around 72% of total estimated expenses ($77 million) for implementing ESP. Can you explain why the cost of administering ESP as percentage of approved project funding was much higher than that originally estimated (about 15%)? Please provide a year-on-year comparison concerning the staff establishment of the Secretariat since ESP came into operation and the roles and responsibilities of each staff? Given that some
95% of the cost of administering ESP was manpower cost, to what extent the amount of resources available for promotion and publicity activities was affected as a result? Does the Administration have any plans to improve the economy in administering ESP, for example, by lowering the manpower cost to free more resources for promotion and publicity activities?

**TID Q6**

According to paragraphs 2.43 and 2.44, the cost of administering ESP had already amounted to some $55.3 million, representing around 72% of total estimated expenses ($77 million) for implementing ESP. Can you explain why the cost of administering ESP as percentage of approved project funding was much higher than that originally estimated (about 15%)? Please provide a year-on-year comparison concerning the staff establishment of the Secretariat since ESP came into operation and the roles and responsibilities of each staff? Given that some 95% of the cost of administering ESP was manpower cost, to what extent the amount of resources available for promotion and publicity activities was affected as a result? Does the Administration have any plans to improve the economy in administering ESP, for example, by lowering the manpower cost to free more resources for promotion and publicity activities?

**HKPC Q7**

According to paragraphs 2.43 and 2.44, the cost of administering ESP had already amounted to some $55.3 million, representing around 72% of total estimated expenses ($77 million) for implementing ESP. Can you explain why the cost of administering ESP as percentage of approved project funding was much higher than that originally estimated (about 15%)? Please provide a year-on-year comparison concerning the staff establishment of the Secretariat since ESP came into operation and the roles and responsibilities of each staff? Given that some
95% of the cost of administering ESP was manpower cost, to what extent the amount of resources available for promotion and publicity activities was affected as a result? Does the Administration/HKPC have any plans to improve the economy in administering ESP, for example, by lowering the manpower cost to free more resources for promotion and publicity activities?

The work involved in administering the ESP is much wider in scope than just approving applications. The ESP Secretariat’s responsibilities include, among others, promoting the BUD Fund, processing applications received, vetting applications, advising applicants in making applications, monitoring the progress of approved applications, and conducting promotion activities. The workload of the ESP Secretariat has been increasing with a view to enhancing the effectiveness in the implementation and monitoring of projects. Comparing the cost of administering ESP with the approved amount of funding (being about 35% according to paragraph 2.43) only cannot reflect the resources expended by HKPC on work which will not manifest itself in the form of approved funding. For instance, the ESP Secretariat has to vet all applications (whether successful or not) in detail, organise seminars and events, conduct one-to-one consultation sessions to advise interested enterprises on making applications, assess progress and final reports of the projects and clarify details of the reports if necessary, conduct on-site checking, etc.

For the year-on-year comparison concerning the staff establishment of the Secretariat since ESP came into operation, please refer to Table 6 on page 35 of the Audit Report. Staff of HKPC in the ESP Secretariat are required to perform a range of duties including programme management and administration, project monitoring as well as promotion and publicities.

As set out in FCR(2012-13)2, $4.8 million ($3.2 million from Government funding and $1.6 million from HKPC contribution) has been designated for promotion and publicity of the
programme over five years. These designated resources for promotion and publicity are not affected by, if any, the variation of other budget items of the programme. It should also be noted that apart from promotion and publicity measures, the ESP Secretariat has also devoted much efforts in the coaching and consultation with potential applicants, which involve substantial manpower, to boost the number of applications. Such manpower costs are not categorized under promotion and publicity.

To ensure that the ESP Secretariat’s manpower deployment is appropriate, the Secretariat is required to submit to PMC for approval an Annual Implementation Plan setting out, amongst others, the planned activities and proposed manpower arrangement taking into account the workload involved for the coming year. We will continue to closely monitor the manpower deployment of the ESP Secretariat.

**TID Q2**
According to paragraph 2.8, the Administration had undertaken promotion and publicity activities by various means. How much money has been spent on this area since the establishment of the BUD Fund for OSP and ESP, with a breakdown by project nature, event as well as year? As most of the approved ESP projects were focused on domestic sales in the Mainland, will TID and HKPC step up the promotions efforts in the regions outside Pearl River Delta; if yes, how to implement? Will TID and HKPC inform this Committee whether they have offices or held promotional events in other provinces besides Guangdong?

**HKPC Q3**
According to paragraph 2.8, the Administration/HKPC had undertaken promotion and publicity activities by various means. How much money has been spent on this area since the establishment of the fund in carrying out OSP and ESP respectively, with a breakdown by project nature, event as
well as year? As most of the approved ESP projects were focused on domestic sales in the Mainland, will TID and HKPC step up the promotions efforts in the regions outside Pearl River Delta; if yes, how to implement? Will TID and HKPC inform this Committee whether they have offices or held promotional events in other provinces besides Guangdong?

As set out in FCR(2012-13)22, a total of $4.8 million ($3.2 million from Government funding and $1.6 million from HKPC contribution) has been designated for promotion and publicity of ESP over five years.

From the establishment of the BUD Fund in June 2012 to March 2016, a total of around $3.16 million ($2.24 million from Government funding and $919,000 from HKPC contribution) has been spent on promotion and publicity on ESP as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure of Promotion &amp; Publicity</th>
<th>Events/Projects</th>
</tr>
</thead>
</table>
| June 2012 – March 2013 | HK$1,119,540.7 | - BUD opening ceremony  
|               |                                      |   - 47 seminars/trade associations’ briefings  
|               |                                      |   - BUD website establishment and advertisements |
| April 2013 – March 2014 | HK$672,053.54  | - 30 seminars/ trade associations’ briefings  
|               |                                      |   - 1 annual symposium  
|               |                                      |   - promotional video  
|               |                                      |   - radio broadcasting  
|               |                                      |   - website maintenance & enhancement  
|               |                                      |   - advertisements |
| April 2014 – March 2015 | HK$870,520.87  | - 27 seminars/ trade associations’ briefings  
|               |                                      |   - 2 annual symposium |
As regards OSP, the government expenditure on promotion and publicity activities has been absorbed and subsumed within the expenditure of relevant bureaux/departments. It is difficult to quantify separately.

As the BUD Fund aims to assist enterprises in Hong Kong to develop the Mainland market, promotion and publicity of the Fund have been carried out mainly in Hong Kong. Nevertheless, promotion and publicity targeting at Hong Kong enterprises operating in the Mainland have also been carried out through the Economic and Trade Offices in the Mainland. HKPC had also conducted promotional seminars in Beijing, Shanghai, Guangzhou, Shenzhen and Dongguan, over the last three and a half years.

**TID Q4**

According to paragraph 2.17, TID and HKPC will help applicants to revise and resubmit their unsuccessful applications if the applicants so wish. In this regard, will the Administration provide the number of resubmissions since the establishment of BUD Fund, with a breakdown by the number of unsuccessful applications as well as the number of applications withdrawn before assessment?

**HKPC Q6**

According to paragraph 2.17, TID and HKPC will help applicants to revise and resubmit their unsuccessful applications if the applicants so wish. In this regard, will
the Administration/HKPC provide the number of resubmissions since the establishment of BUD Fund, with a breakdown by the number of unsuccessful applications as well as the number of applications withdrawn before assessment?

Since the establishment of BUD Fund until end December 2015, we have received 211 resubmissions for ESP, 127 of which are from rejected applications and 84 are from applications withdrawn before assessment. The ESP Secretariat provided advice to applicants on why their applications had been turned down. A good number of resubmissions have eventually been approved.

As for OSP, we have received 12 resubmissions from rejected projects, and 8 resubmissions from previously withdrawn applications as at end December 2015.

HKPC Q8
According to paragraph 2.45, while the numbers of applications and approved projects were low and decreasing, the actual number of full-time staff of ESP Secretariat remained at about 15 to 16. The Administration explained this seemingly strange phenomenon, saying the workload of the ESP Secretariat had been increasing with a view to enhancing the effectiveness in the implementation and monitoring of projects. In this connection, will HKPC provide details of work that the full-time staff had to handle? Had any additional work been imposed on the full-time staff on enhancing the effectiveness in the implementation and monitoring of projects when the numbers of applications and approved projects were at a low level and decreasing? Has HKPC planned to critically review the needs on manpower (e.g. to consider expanding the establishment with a view to further enhancing the
effectiveness in the implementation and monitoring of projects)?

The work involved in administering the ESP is much wider in scope than approving applications. The ESP Secretariat’s responsibilities include, amongst others, promoting the BUD Fund, processing applications received, vetting applications, advising applicants in making applications, monitoring the progress of approved applications, and conducting promotion activities. In details, the work of ESP Secretariat staff includes:

- contacting the applicants to clarify ambiguous information in the applications and requesting applicants to provide supplementary information and/or to revise applications;
- conducting initial assessment on all received applications and compiling assessments reports for submission to Inter-Departmental Committee (“IDC’);
- preparing and arranging the IDC meetings;
- consolidating comments from IDC and contacting applicants to provide further information regarding questions from IDC; consolidating recommendations from IDC and supplementary information from applicants for submission to PMC;
- preparing and arranging PMC meetings;
- preparing summary lists capturing PMC vetting results;
- informing all applicants of the vetting results through official letters;
- for rejected applications, answering questions raised by applicants regarding the vetting results and providing suggestions on how to revise the applications for resubmission;
- for Approval with Conditions applications,
communicating with the applicants and assisting them to revise the applications to fulfil the conditions for approving the applications; and

- for approved projects, preparing and arranging signing of funding agreements of the projects with grantees, providing briefing sessions to the grantees on the funding agreements and writing of progress reports, following up and monitoring approved projects (including handling of changes requests, providing consultation sessions on report writing, assessing progress and final reports of the projects and conducting on-site checking, etc.), disbursement of funds as approved by PMC after the grantee has opened designated bank account and deposited matching fund, etc.

The manpower level is considered suitable for implementing the above work.

**HKPC Q9**

According to Table 6 of paragraph 2.45, over 50% of ESP Secretariat's staff were at consultant grade, in particular that in 2012-2013, 10 of 12 staff were principal consultant/senior consultant/consultant. Will HKPC inform this Committee the reasons to employ so many consultants? What are their roles in the implementation and monitoring of ESP projects? In what circumstance the ESP Secretariat will reduce the number of consultants?

As all non-listed Hong Kong enterprises from any industry are eligible to submit applications under ESP, the applications received covered a wide range of industries and specific natures/areas, which would require professional judgement on vetting and follow up. To ensure all applications are handled properly, the ESP Secretariat would need to deploy staff at
“consultant” level or above in the light of their experience and qualifications to handle vetting and monitoring tasks.

For the roles and responsibilities of the ESP Secretariat in the implementation and monitoring of ESP projects, please refer to our response to HKPC Q8.
Part 3: Management of OSP projects

CEDB Q10
According to paragraph 3.4, an OSP applicant is allowed to engage implementation agents to carry out the project in accordance with the proposal. Implementation agents directly participate in the project to provide services such as project administration, event organization and professional consultancy, and charge the grantee a consultancy fee for the services provided. However, Audit noted that some grantees had not provided the OSP Secretariat with details of the consultancy fees, and a grantee assigned its staff to take up the duties of the approved additional manpower and charged the manpower cost to the project accounts. Having regard that incorrect/false manpower information and unclear accounts are serious problems in project management, under what circumstances will the OSP Secretariat withhold the grant to the grantees?

TID Q7
According to paragraph 3.4, an OSP applicant is allowed to engage implementation agents to carry out the project in accordance with the proposal. Implementation agents directly participate in the project to provide services such as project administration, event organization and professional consultancy, and charge the grantee a consultancy fee for the services provided. However, Audit noted that some grantees had not provided the OSP Secretariat with details of the consultancy fees, and a grantee assigned its staff to take up the duties of the approved additional manpower and charged the manpower cost to the project accounts. Having regard that incorrect/false manpower information and unclear accounts are serious problems in project management, under what circumstances will the OSP Secretariat withhold the grant to the grantees?

Many non-profit-distributing trade associations lacked the expertise and manpower resources to formulate detailed plans and
deliverables for OSP projects. Without the assistance of an experienced and professional implementation agent, these trade associations would be unable to put forward well-thought-out proposals that could meet the requirements of the OSP. The implementation agent helped the applicant develop the project proposal including its detailed scope and deliverables.

For better assessment of the reasonableness of individual budget items, the OSP Secretariat has required since January 2014 that for proposed consultancy fees to be charged by implementation agents, breakdown by services/project deliverables should be provided in the applications. For the projects which Audit noted that details of consultancy fee were not provided (para 3.8(a) of the Audit report), they were approved before January 2014.

In accordance with the project agreement signed between the Government and the grantee for OSP funded project, the Government reserves the right to withhold any further payment to the grantee if 50% or more of the grant plus the cash contribution by the applicant and sponsor (if any) remains unspent in the project account; if the applicant has failed or is likely to fail to execute the project; or if any reports, financial statements or other deliverables submitted by the applicant does not meet the standards specified in the project agreement. Since the launch of BUD Fund in June 2012, we have not encountered any such cases which warrant the Government to exercise the above right.

For the project which involved unallowable manpower cost (para 3.27 of the Audit report), the grantee has been asked to refund the amount involved to the Government. It has already done so. The incident has been duly reflected in the grading of the project, which will be taken into account by the secretariat and the Vetting Committee in considering future OSP applications from the same
organisation.

CEDB Q11
Has the Administration set a cap on consultancy fee? According to paragraph 3.9, the OSP Secretariat has implemented the enhancement measures since January 2014. Why did the OSP Secretariat make the change in January 2014? How many projects were granted with implementation agents before January 2014 and what was the amount incurred in terms of the consultancy fees? Are there cases that the Administration urged applicants to reduce consultancy fees before and after the implementation of enhancement measures? If yes, please provide details of these cases.

TID Q9
Has the Administration set a cap on consultancy fee? According to paragraph 3.9, the OSP Secretariat has implemented the enhancement measures since January 2014. Why did the OSP Secretariat make the change in January 2014? How many projects were granted with implementation agents before January 2014 and what was the amount incurred in terms of the consultancy fees? Are there cases that the Administration urged applicants to reduce consultancy fees before and after the implementation of enhancement measures? If yes, please provide details of these cases.

“Consultancy fee” under the OSP refers to the sum given to a project implementation agent for managing the project and/or carrying out project measures specified by the applicant. The fee varies from project to project and depends on the project nature and the service required by the applicant from the implementation agent. While there is no cap, we have been adopting a comprehensive approach in vetting individual budget items, including consultancy fee of implementation agent. Our existing practice is to first assess the reasonableness of individual budget
items, and vet budget items with cost on the high side by making reference to approved projects of similar nature and deliverables. The updated Operation Manual in January 2016 sets out more clearly the above procedures. Moreover, secretariat staff is required to document in case files justifications and reference details adopted during the vetting. To facilitate the vetting process, the secretariat has started to develop a database to record the approved budget of individual cost items of approved projects.

For better assessment of the reasonableness of individual budget items, the OSP Secretariat has required since January 2014 that for proposed consultancy fees to be charged by implementation agents, breakdown by services/project deliverables should be provided in the applications.

Before January 2014, 26 projects with implementation agents were approved and the total amount incurred for consultancy fees was $25,659,425.

After the vetting of the consultancy fee by the secretariat in accordance with the approach mentioned above, any proposed reduction will be submitted to the Vetting Committee for consideration. For the 45 approved projects mentioned in the Audit report, 37 were approved before January 2014 and 26 of them involved the engagement of implementation agents. The consultancy fees of 22 projects were reduced while the implementation agent of one project did not request for consultancy fee. For the 8 projects approved after January 2014, 4 of them involved the engagement of implementation agents. The consultancy fees of 3 projects were reduced.

CEDB Q12
Is there any cap on the cash and in-kind contribution that the
applicants contribute to the total expenditure for OSP projects? If yes, how does the Administration ensure that cash and in-kind contribution is within the cap and what is/are the consequence(s) in case cash and in-kind contribution exceeds the cap; if no, reasons for not setting a cap?

**TID Q10**

Is there any cap on the cash and in-kind contribution that the applicants contribute to the total expenditure for OSP projects? If yes, how does the Administration ensure that cash and in-kind contribution is within the cap and what is/are the consequence(s) in case cash and in-kind contribution exceeds the cap; if no, reasons for not setting a cap?

Under the OSP, the maximum amount of grant for each approved project is $5 million, or 90% of the total project expenditure, whichever is the less. The grantee is required to contribute the remaining 10% of the total project expenditure, which may be in cash, in kind or in the form of sponsorship from any third parties other than the Government. The 10% contribution is a minimum requirement for the grantee. A grantee may contribute a higher percentage of the project cost (i.e. >10%) and request for OSP funding of a lower percentage of the project cost (i.e. <90%). There are so far 7 OSP funded projects with grantees contributing more than 10% of the project cost.

**CEDB Q13**

Audit recommended the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry to tighten the control on in-kind contribution and strengthen the monitoring of the progress of OSP projects as well as the monitoring of the submission of reports by OSP grantees (paragraphs 3.19, 3.29 and 3.35 refer). In this connection, will the Administration consider imposing penalties on the grantees who fail to follow the project agreements and
guidelines?

**TID Q15**
Audit recommended the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry to tighten the control on in-kind contribution and strengthen the monitoring of the progress of OSP projects as well as the monitoring of the submission of reports by OSP grantees (paragraphs 3.19, 3.29 and 3.35 refer). In this connection, will the Administration consider imposing penalties on the grantees who fail to follow the project agreements and guidelines?

With a view to further enhancing the operation of OSP, TID completed an internal review on the vetting and monitoring procedures of OSP in end October 2015 and improvement measures (including requirements on monitoring the fees of implementation agents, control on in-kind sponsorship, checking of books and records, and website updating, etc.) were identified and incorporated in the latest update of the OSP Operation Manual in January 2016.

The project agreement signed between the Government and the grantee for OSP funded project already includes penalty clauses in which the Government reserves the right to suspend or terminate, after consultation with the Vetting Committee, funding support for a project. The grantee may have to return all/part of the grant together with all administrative, legal and other costs and interest under such circumstances. Besides, any non-compliance with the terms and conditions of the project agreement will also be taken into account by the OSP secretariat when giving the overall grading of projects for Vetting Committee’s endorsement. The grading will be reflected to the Vetting Committee when the grantee applies for OSP funding again.
TID Q8
According to paragraph 3.5 (Table 11), HKPC was an implementation agent who had undertaken 22 OSP projects. Had TID and the Vetting Committee assessed the capacity of each of the implementation agents as far as handling of projects is concerned? Was HKPC engaged as an implementation agent by 22 different grantees? Please provide details of the grantees involved. If HKPC is assessed to be a competent implementation agent of OSP projects, could HKPC carry out OSP projects and apply for the funding on its own?

Where an implementation agent is proposed, the application form submitted should contain detailed information for vetting of the implementation agent, including CV of its key staff responsible for implementing the project, and currently a detailed breakdown of the consultancy fee charged by the agent. The secretariat and Vetting Committee will consider the suitability of the implementation agent in implementing the project based on their capabilities and past experience.

Among the 22 projects which HKPC was engaged as an implementation agent, a total of 21 grantees were involved (one of the grantees have two OSP funded projects implemented by HKPC). These 22 projects were not carried out simultaneously and were taken up by several project teams in HKPC. A list of the projects is as follows.
<table>
<thead>
<tr>
<th>No.</th>
<th>Project ref.</th>
<th>Name of Grantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BUD122005</td>
<td>Hong Kong Sea Transport and Logistics Association Limited</td>
</tr>
<tr>
<td>2</td>
<td>BUD143003</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>BUD122006</td>
<td>Hong Kong Far Infrared Rays Association Limited</td>
</tr>
<tr>
<td>4</td>
<td>BUD122011</td>
<td>Hong Kong Electrical Appliance Industries Association Limited</td>
</tr>
<tr>
<td>5</td>
<td>BUD122012</td>
<td>Hong Kong Medical and Healthcare Device Industries Association Limited</td>
</tr>
<tr>
<td>6</td>
<td>BUD122013</td>
<td>Hong Kong Plastic Machinery Association Limited</td>
</tr>
<tr>
<td>7</td>
<td>BUD122015</td>
<td>The Hong Kong Electronic Industries Association Limited</td>
</tr>
<tr>
<td>8</td>
<td>BUD123003</td>
<td>The Hong Kong Printers Association</td>
</tr>
<tr>
<td>9</td>
<td>BUD124001</td>
<td>SAE International (Hong Kong) Limited</td>
</tr>
<tr>
<td>10</td>
<td>BUD124007</td>
<td>Hong Kong Intimate Apparel Industries’ Association Limited</td>
</tr>
<tr>
<td>11</td>
<td>BUD124010</td>
<td>Federation of Hong Kong Industries</td>
</tr>
<tr>
<td>12</td>
<td>BUD131013</td>
<td>The Hong Kong Medicine Dealer’s Guild</td>
</tr>
<tr>
<td>13</td>
<td>BUD132002</td>
<td>Hong Kong Surface Finishing Society Limited</td>
</tr>
<tr>
<td>14</td>
<td>BUD132010</td>
<td>Hong Kong Watch Manufacturers Association Limited</td>
</tr>
<tr>
<td>15</td>
<td>BUD133001</td>
<td>The Federation of Hong Kong Footwear Limited</td>
</tr>
<tr>
<td>16</td>
<td>BUD133003</td>
<td>Hong Kong (SME) Economic and Trade Promotional Association Limited</td>
</tr>
<tr>
<td>17</td>
<td>BUD133006</td>
<td>Licensing and Franchising Association of Hong Kong Limited</td>
</tr>
<tr>
<td>18</td>
<td>BUD133010</td>
<td>Hong Kong Auto Parts Industry Association Limited</td>
</tr>
<tr>
<td>19</td>
<td>BUD133016</td>
<td>Hong Kong Footwear Association Limited</td>
</tr>
<tr>
<td>20</td>
<td>BUD134001</td>
<td>Hong Kong Metal Merchants Association</td>
</tr>
<tr>
<td>21</td>
<td>BUD141002</td>
<td>Hong Kong Optical Manufacturers Association Limited</td>
</tr>
<tr>
<td>22</td>
<td>BUD143007</td>
<td>Federation of Hong Kong Brands Limited</td>
</tr>
</tbody>
</table>

Under the OSP, non-profit-distributing organisations such as trade and industrial organisations, professional bodies or research institutes, which shall either be statutory organisations or organisations registered under the laws of the Hong Kong Special Administrative Region, are eligible to apply. HKPC fulfils the above requirement but has not applied for OSP funding so far.
TID Q11
According to paragraph 3.18, whether manpower shortage was a major factor affecting the verification of the claimed value of in-kind contribution? Given that the Operation Manual was updated in January 2016, whether the OSP Secretariat has increased the number of staff to carry out the verification duties? Please provide the details if it has and reasons if it has not.

Before the Operation Manual was updated in January 2016, the secretariat required the grantee to provide a letter listing out the nature and the amount of in-kind contribution as documentary proof for in-kind contribution under OSP projects. The then practice had been duly adopted by the secretariat and reflected no problem in manpower.

TID completed an internal review on the vetting and monitoring procedures of OSP in end October 2015 and improvement measures (including requirements on monitoring the fees of implementation agents, control on in-kind sponsorship, checking of books and records, and website updating, etc.) were identified and incorporated in the latest update of the OSP Operation Manual in January 2016.

Staff of the secretariat has all along followed the procedures in the OSP Operation Manual in vetting and monitoring OSP projects. The newly added verification duties for in-kind contribution can be absorbed by existing staff of the OSP secretariat hence we do not have a need to increase the number of staff for the said duties for now.

TID Q12
According to paragraph 3.25, since Audit found that Project B
and Project C did not follow the requirement to keep recruitment records for seven years, have any remedial actions been taken to address the problems? Will the grantees of Project B and Project C be penalized or punished for the breach of the requirement? Will the chance of the grantees' being awarded projects in future be affected because of any breach of the requirements under the OSP guidelines? Please provide details.

The project agreement requires that the grantee shall maintain full and proper books of accounts and records (including receipts, counterfoils, vouchers, quotations and tendering documents and other supporting documents) in connection with the project during the project period plus a minimum period of seven years. The Grantee shall also ensure that the Government can access to such books and records for conducting audit, inspection, verification and copying upon reasonable notice during the project period and the seven-year period mentioned above, and explain to the Government any matters relating to the funds concerned upon request.

The failure of the two grantees in maintaining proper books and records of the project for seven years after project completion had been documented in case files, which will be taken into account by the secretariat and Vetting Committee in considering future OSP applications from the organisations concerned. Moreover, after the non-compliance was discovered by Audit, we reminded the two grantees again to strictly follow the requirements as set out in the project agreement for their other on-going or future funded projects, if any, including the keeping of books and records for seven years after project completion. We will also include in the briefing before project commencement, correspondences / notifications to grantees (such as the letters attaching the project agreements and reminders to be issued before project completion,
etc.) a reminder of the requirement to keep proper books and records for seven years after project completion.

**TID Q13**

According to paragraph 3.25, has the OSP Secretariat found the reasons of not widely advertising the job vacancy and the incompliance of documentation as required under the OSP guidelines by the grantees of Project B & Project C? Had the OSP Secretariat noted the inappropriate practice of the grantees of the two projects when the recruitment exercises for the two projects took place?

Our Guide to Application advises grantees that job vacancies arising from recruitment of project staff should be widely advertised in local newspaper and/or other channels. While advertising in local newspaper is not a must, both grantees indicated that they had placed advertisements in their own websites when submitting final reports to the secretariat upon project completion. The secretariat did not raise queries at that time in consideration that advertisements in websites are accessible to the public at large hence the above requirement was fulfilled. Nevertheless, in updating the OSP Operation Manual in January 2016, we have revised the format of progress/final reports to be submitted by grantees, so that more detailed information on the advertising channels (e.g. name of website/magazine/newspaper used for advertising) will be provided. To facilitate the assessment by secretariat staff, we will also include in the Operation Manual criteria on whether job vacancies have been widely advertised.

**TID Q14**

According to paragraph 3.27, the OSP Secretariat considered that the grantee's management of project was below standard.
In this connection, had the grantee been penalized? If yes, please provide details. Was manpower shortage a major factor which had caused the lax supervision by the OSP Secretariat?

The OSP already has in place a mechanism in the vetting and monitoring of projects since its launch. On the monitoring of projects, the secretariat oversees project activities and the grantee’s submissions (such as progress reports, final reports and audited accounts), and return of residual funds by grantees. Upon project completion, the secretariat assesses the effectiveness of the project based on its deliverable and results. The deliverables and the results of the projects will be submitted to the Vetting Committee to facilitate its monitoring of implementation and evaluating the effectiveness of the funded projects.

TID completed an internal review on the vetting and monitoring procedures of OSP in end October 2015 and improvement measures (including requirements on monitoring the fees of implementation agents, control on in-kind sponsorship, checking of books and records, and website updating, etc.) were identified and incorporated in the latest update of the OSP Operation Manual in January 2016. To enhance the knowledge and understanding of staff of the OSP Secretariat, a briefing on the enhancement measures introduced to the OSP Operation Manual was conducted in February 2016. Regular meetings will be held to brief staff of any new and enhancement measures.

For the said project, once the charging of unallowable cost to the project accounts was discovered by the secretariat, prompt action has been taken to direct the grantee to return the amount of unallowable cost to the Government. Refund by the grantee was made within a month after the secretariat wrote to it.
The incident has been duly reflected in the grading of the project, which will be taken into account by the secretariat and the Vetting Committee in considering future applications from the same organisation. We consider that the secretariat has adequate resources in operating the OSP.
Part 4: Management of ESP projects

**CEDB Q14**
According to paragraph 4.6, the applicants needed to wait, in addition to the some three to six months taken for project approval, one to seven months for the signing of the agreement for project commencement, depending on the conditions of the projects. Has the Administration reviewed the application procedures with a view to shortening the lead time for project approval? Will holding more PMC meetings be a viable solution to the issue?

**TID Q17**
According to paragraph 4.6, the applicants needed to wait, in addition to the some three to six months taken for project approval, one to seven months for the signing of the agreement for project commencement, depending on the conditions of the projects. Has the Administration reviewed the application procedures with a view to shortening the lead time for project approval? Will holding more PMC meetings be a viable solution to the issue?

**HKPC Q10**
According to paragraph 4.6, the applicants needed to wait, in addition to the some three to six months taken for project approval, one to seven months for the signing of the agreement for project commencement, depending on the conditions of the projects. Has the Administration/HKPC reviewed the application procedures with a view to shortening the lead time for project approval? Will holding more PMC meetings be a viable solution to the issue?

ESP applications are considered in batches by the PMC which meets once around every three months (March, June, September, December). About 90% of the applications are submitted a few days before the closing date, which is the end of the month three months before the next PMC meeting. The remaining 10% are submitted generally no more than a week before the closing date.
In other words, applications are processed, as soon as they have been received, in about three months, during which the ESP Secretariat clarifies details of applications with applicants and submits the applications for consideration of IDC, before a PMC meeting. After the applications are approved with or without conditions, most of the grantees require some time for addressing conditions of approval, opening dedicated bank accounts or making upfront payment, etc. before they could commence the approved projects.

In order to facilitate project commencement, HKPC has been working with the grantees such that potential conditions for approval can be minimized as much as possible before consideration by the PMC. As a result, the number of cases of approval with conditions has been on the low side recently, being five, three, five and five for the batches of Q1, Q2, Q3 and Q4 2015. For applications under ESP Easy under which the funding scopes of projects are confined to a number of specified measures, there are no cases of approval with conditions and hence the grantees need not take time to address conditions of approval. Project commencement is further facilitated under ESP Easy since the grantees need not make upfront payment and reimbursement of funds they have expended can be recognized as far back as to after the application submission dates as long as the applications are approved. No dedicated bank accounts are required.

Additional IDC meetings have already been arranged in each quarter to vet ESP Easy applications. They will then be considered by the PMC by circulation of papers. For conventional ESP applications which cover more variety of project measures and budget items, the current practice of conducting one PMC meeting in each quarter is considered appropriate. We will continue to monitor the situation.

**CEDB Q15**

According to paragraph 4.13 (Table 13), of 11 progress
reports selected by Audit, no progress report was submitted on time. What were the reasons for the late submission? Has the Administration finished the review of the practice of requiring grantees to submit a progress report every six months for the projects with duration of more than 12 months and up to 24 month? Please provide details if it has or the progress if it has not. Of Audit's selected projects, will the Administration provide a breakdown by the number of days between the disbursement of final payments to the grantees and the completion dates of the projects?

**TID Q18**
According to paragraph 4.13 (Table 13), of 11 progress reports selected by Audit, no progress report was submitted on time. What were the reasons for the late submission? Has the Administration finished the review of the practice of requiring grantees to submit a progress report every six months for the projects with duration of more than 12 months and up to 24 month? Please provide details if it has or the progress if it has not. Of Audit's selected projects, will the Administration provide a breakdown by the number of days between the disbursement of final payments to the grantees and the completion dates of the projects?

**HKPC Q11**
According to paragraph 4.13 (Table 13), of 11 progress reports selected by Audit, no progress report was submitted on time. What were the reasons for the late submission? Has the Administration/HKPC finished the review of the practice of requiring grantees to submit a progress report every six months for the projects with duration of more than 12 months and up to 24 month? Please provide details if it has or the progress if it has not. Of Audit's selected projects, will the Administration/HKPC provide a breakdown by the number of days between the disbursement of final payments to the grantees and the completion dates of the projects?

The grantees were late in submitting progress reports due to the
following reasons:
1) about 96% of the grantees were SMEs and 65% of them did not have more than 10 staff. That they had limited manpower and time to prepare the reports was understandable;
2) there was turnover of the project co-ordinator/deputy project co-ordinator and the new staff needed time to take over the projects and submit the reports; and
3) the grantees took time to consolidate the supporting documents and engage auditors to prepare the annual audited accounts.

The Administration has not embarked on any review of the practice of requiring grantees to submit a progress report every six months for the projects with duration of more than 12 months and up to 24 months. The current requirements are considered appropriate for the purpose of proper monitoring of the projects. Nevertheless, the ESP Secretariat has taken various measures to facilitate the grantees’ submission of reports. Please see our response to HKPC Q12 and HKPC Q13. We will continue to monitor the situation.

Disbursement of final payments for the grantee will only be made when the final report and the audited accounts, which are to be submitted within two months after the project completion date, are accepted by the PMC. The progress reports and final reports submitted by grantees usually lacked clarity and details, and the ESP Secretariat needs to take a lot of time and efforts to clarify with the grantees. The 11 progress reports selected by Audit with delay in report submission are related to five individual projects. Of these five projects, the number of days between the disbursement of final payments to the grantees and the submission dates of the finalised final report (with clarifications as advised by the Secretariat) ranges from 95 to 168 days.

CEDB Q16
According to paragraphs 4.22, 4.23 & 4.24, does CEDB agree that as time progresses, the overall termination rate will
increase? Does the Administration expect that eventually the overall termination rate may be as high as those for Batch 1 and Batch 2 (26.5% and 30.2% respectively)? What were the causes of terminations? How many projects were terminated because (i) the grantee failed to comply with any terms, conditions or undertakings in the project agreement and the grantee failed to remedy the breach to the satisfaction of the ESP Secretariat within a stipulated time; and (ii) the grantee had abandoned the project agreement? Had the ESP Secretariat, the IDC and PMC considered the possible reasons which led to termination as mentioned in Note 19 in assessing the project applications? Had the ESP Secretariat provided assistance to the grantees when they encountered the difficulties as mentioned in Note 19? What actions have been taken to address the issues? Please provide the details if it has and reasons if it has not.

**HKPC Q14**

According to paragraphs 4.22, 4.23 & 4.24, does HKPC agree that as time progresses, the overall termination rate will increase? Does the HKPC expect that eventually the overall termination rate may be as high as those for Batch 1 and Batch 2 (26.5% and 30.2% respectively)? What were the causes of terminations? How many projects were terminated because (i) the grantee failed to comply with any terms, conditions or undertakings in the project agreement and the grantee failed to remedy the breach to the satisfaction of the ESP Secretariat within a stipulated time; and (ii) the grantee had abandoned the project agreement? Had the ESP Secretariat, IDC and PMC considered the possibilities as mentioned in Note 19 in assessing the project applications? Had the ESP Secretariat provided assistance to the grantees when they encountered the difficulties as mentioned in Note 19? What actions have been taken to address the issues? Please provide the details if it has and reasons if it has not.

As at 31 March 2016, the overall termination rate stood at 9.6%, (52 among 541 projects) being lower than the 13% as at October
2015 as stated in paragraph 4.23 of the Audit Report. For each and every terminated project, the ESP Secretariat conducted a review for IDC’s and PMC’s consideration. In light of the decreasing trend, it is expected that the overall termination rate may not be as high as those for Batch 1 and Batch 2.

As of October 2015, 36 out of 45 projects were terminated due to change of external market situation or demand in the Mainland, the grantee's internal issue or restructuring, lack of resources or manpower to implement the project, change of the grantee's marketing strategy or corporate direction, increasing costs, labour shortage, and change of operating environment as a result of changes in regulations, etc.

The other nine cases were terminated on the ESP Secretariat’s recommendation among a total of 45 termination cases mentioned in the Audit Report. Those nine cases were terminated either because the grantees were found not implementing most of the key measures/deliverables or had abandoned the project agreement. This is a result of close monitoring by the ESP Secretariat through communications with the grantees by phone/emails, follow up with grantees on their submitted change requests and reports, findings from on-site checking etc.

The applicant’s financial and manpower capability in project implementation, among others, will be considered by the ESP Secretariat, IDC and PMC when assessing the project applications. However, changes in market conditions are not something that could be foreseen at application vetting stage.

The ESP Secretariat has taken various measures to facilitate implementation of the approved projects. Please see our response to HKPC Q12 and HKPC Q13.

**TID Q16**

According to paragraph 4.4, the PMC meets once every three months to consider the applications for ESP, and it could take
as long as six months before an application is approved. Will the Administration inform this Committee the approval procedures in details? Can PMC hold extra meetings to consider the applications; if not, what are the difficulties? As indicated in the information paper provided by the Administration to the Legislative Council Panel on Commerce and Industry (LC Paper No. CB(1)632/14-15(03)), around 97% of ESP applications came from small and medium enterprises ("SMEs"). As the scale of the projects organized by SMEs are relatively small, can the ESP Secretariat introduce any measures to expedite the handling procedures?

The ESP Secretariat conducts initial assessments on all applications. The IDC, which comprises members from relevant government bureaux/departments, assesses all applications having regard to the initial assessment and makes recommendations to the PMC. The PMC is chaired by the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) and comprises ex-officio members and non-official members from the trade. It assesses all applications having regard to the recommendations of the IDC and advises the Government on the approval or otherwise of the applications.

The PMC meets about once every three months to consider the ESP applications in batches. About 90% of the applications are submitted a few days before the closing date, i.e. the end of March, June, September and December. The six months lead time only appears if an application is received at the beginning of a batch. As mentioned in our response to CEDB Q14, TID Q17 and HKPC Q10, most of the applications are processed, as soon as they have been received, in about three months, during which the ESP Secretariat clarifies details of applications with applicants and submits the applications for consideration of IDC, prior to the PMC meeting.

The ESP Easy was introduced in August 2015 with a view to simplifying application procedures under which the funding
scopes of projects are confined to a number of specified measures and application form is simplified. Under ESP Easy, the project duration can start from a date before the project is approved by the PMC and before a funding agreement is signed but after the date of submission of application, subject to PMC’s approval of the application. All relevant expenditure incurred as early as after the date of submission of application to the ESP Secretariat can be recognised and reimbursed, provided that the measure was within the project duration and included in the project proposal approved by the PMC. Additional IDC meetings were already arranged in each quarter to vet ESP Easy applications. They will then be considered by the PMC by circulation of papers. For conventional ESP applications which cover more variety of project measures and budget items, the current practice of conducting one PMC meeting in each quarter is considered appropriate. We will continue to monitor the situation.

HKPC Q12
According to paragraph 4.14, the grantees did not have enough manpower and experience to prepare the progress and final reports. Has the ESP Secretariat provided any guidance and support to help the grantees compile their reports? Please provide details if it has, and reasons if it has not.

HKPC Q13
Will the ESP Secretariat consider giving briefing or sending model report to the grantees to facilitate their submission of reports and to streamline the process as recommended in paragraph 4.15?

The ESP Secretariat has taken various measures to facilitate implementation of approved projects, especially quality and speedy submission of progress reports and final reports:

(a) Briefing sessions for agreement signing: to provide one-to-one briefing on the funding agreement and to
introduce report submission requirement as well as the progress and final report templates. As of April 2016, the ESP Secretariat has provided a total of 487 briefing sessions to the grantees. Grantees are also reminded of key elements for compiling the reports at the briefing session. It is normally a 45-minute meeting held in the ESP Secretariat.

(b) Consultation sessions for report writing: to provide one-to-one consultation to address grantee’s questions in compiling the progress/final report. It is normally a 2-hour session held in the ESP Secretariat or grantee’s office. Since the introduction of this service in December 2013 till April 2016, the ESP Secretariat has provided a total of 61 consultation sessions to the grantees.

(c) Sharing session: a seminar was organized in March 2015 and grantees of on-going projects were invited to participate. At the seminar, the ESP Secretariat reiterated the compliance on project progress and monitoring, introduced the report compilation requirement, shared reference samples, and answered questions from grantees.

(d) Mock-up report templates in BUD website: mock-up templates were posted in BUD website in November 2015 with reference samples of progress and final report. The templates covered guidelines, reference examples and lists of supplementary information/supporting documents needed etc. For ESP Easy project, a streamlined and simplified final report template was developed and uploaded to BUD website in March 2016.

(e) On-site checking by the ESP Secretariat: to check the progress and clarify the submitted progress/final report (if any), such as verification of the supplementary information and supporting documents, provision of consultation on the report revision (if needed) or preparation of the next report. It is normally a 3-hour meeting held in grantee’s office/factory.
Professional advice: The ESP Secretariat recruited an auditor in April 2015 to provide professional advice and address queries from grantees’ auditor by phone/emails. Moreover, the ESP auditor provided professional consultation sessions during on-site checking which helped to facilitate grantee in submission of the audit reports. As of April 2016, a total of 51 professional consultation sessions had been provided by the ESP auditor.
Part 5: Way forward

CEDB Q17
According to paragraph 5.4, the Government undertook to report to the Legislative Council Panel on Commerce and Industry its assessment on the overall effectiveness of BUD Fund when more projects were completed. In this connection, how many more projects should be completed before the said assessment exercise will be triggered?

The CEDB and TID, with the support of the HKPC, have been reviewing the operation and implementation of the BUD Fund on an ongoing basis, with a view to enhancing its operation. We have been reporting the operation of the Fund to the LegCo Panel on Commerce and Industry every year. We aim to provide an update to the Panel on the implementation progress, including the effectiveness of the funded projects, within the coming legislative year.

CEDB Q18
According to paragraph 5.7, the Secretary for Commerce and Economic Development has said that the Government will continuously review the operation of BUD Fund on an ongoing basis and implement improvement measures, and will consider further review as appropriate. Against this backdrop, what improvement measures have been/will be implemented for the operation of BUD Fund? If a further review on the operation of BUD Fund is not carried out at this stage, is the Administration satisfied with the current operation of BUD Fund?

TID Q19
According to paragraph 5.7, the Secretary for Commerce and Economic Development has said that the Government will continuously review the operation of BUD Fund on an ongoing basis and implement improvement measures, and will
consider further review as appropriate. Against this backdrop, what improvement measures have been/will be implemented for the operation of BUD Fund? If a further review on the operation of BUD Fund is not carried out at this stage, is the Administration satisfied with the current operation of BUD Fund?

The CEDB and TID, with the support of the HKPC, have been reviewing the operation and implementation of the BUD Fund on an ongoing basis, with a view to enhancing its operation. The following improvements have been/will be implemented -

On ESP

(a) Operation of ESP:

(i) The ESP Easy was introduced in August 2015 with a view to simplifying application procedures under which the funding scopes of projects are confined to a number of specified measures. Under ESP Easy, the application form is simplified; vetting procedures for applications are streamlined such that applications would be circulated to the PMC for endorsement after consideration by the IDC; the process of arranging signing of funding agreement for ESP Easy projects is simplified such that grantees need not open dedicated project accounts. ESP Easy is well received by the trade. Up to the end of March 2016, we have received 218 applications.

(ii) Collation and collection of information in respect of the funded projects have been stepped up since June 2015, including (i) conducting completion surveys with grantees upon completion of the projects; (ii) conducting tracking surveys one year after the end date of the project period; and (iii) collating information about the deliverables of the project
based on the final reports submitted by the grantees.

(iii) Enhancement measures were put in place in March 2016 following internal reviews on the operation of the ESP, including revising the Normal Track application form and amending the holistic business plan section by adopting a simplified format, streamlining the vetting of ESP Easy applications, etc.

(b) Support to applicants:

The ESP Secretariat has been assisting applicants in the preparation of applications with a view to improving the quality of applications, such as providing even clearer guidelines on the application form, organising and participating in 151 seminars and events, and conducting 418 one-to-one consultation sessions to advise interested enterprises on making applications.

(c) Promotion:

(i) The ESP Secretariat has stepped up the promotion efforts since the third quarter of 2015 and has made intensive promotion efforts such as participating in exhibitions, conducting telephone and email marketing work as well as conducting one-to-one consultation sessions with interested enterprises, etc.

(ii) To attract more applications under ESP, the ESP Secretariat has secured the support from the Hong Kong Trade and Development Council, the Hong Kong Export Credit Insurance Corporation, the Hong Kong Science and Technology Parks Corporation and Hongkong Post to provide special offers to enterprises which obtain funding from the BUD Fund.

On OSP
(a) Operation of OSP:

(i) TID completed an internal review on the vetting and monitoring procedures of OSP in end October 2015 and improvement measures (including requirements on monitoring the fees of implementation agents, control on in-kind sponsorship, checking of books and records, and website updating, etc) were identified and incorporated in the latest update of the OSP Operation Manual in January 2016. To enhance knowledge and understanding of staff of the OSP Secretariat, a briefing on the enhancement measures introduced to the OSP Operation Manual was conducted in February 2016. Regular meetings will be held to brief staff of any new and enhancement measures.

(ii) In the light of the Audit findings and recommendations, we will further update the Operation Manual and ensure that staff of the OSP secretariat are fully acquainted with and comply with the requirements relating to the management and monitoring of OSP projects.

(b) Support to applicants:

(i) We have been providing support to applicants at different stages of their applications, such as one-to-one consultation to potential applicants so that we can provide our views on the applications at an earlier stage; giving detailed rejection reasons to unsuccessful applicants to assist them in understanding Vetting Committee’s views to facilitate
their re-submissions.

(ii) In response to the audit recommendations, we will highlight in our future promotion that applicants may approach the Secretariat for one-to-one consultation to help them understand the objectives and criteria when preparing applications. We will also adopt a more targeted approach to discuss with applicants with rejected proposals in order that proposals can be revised and re-submitted quickly.

(c) Promotion:

(i) Apart from on-going measures including promotional seminars/events and one-to-one consultation meetings with potential applicants, promotional letters were sent to trade and industrial organisations with rejected or withdrawn applications in May 2014. Another round of these letters were sent in January 2016 to over 480 trade and industrial organisations known to TID.

(ii) In the light of the audit recommendations, we will step up our promotion efforts further by sending promotional letters more frequently, outreaching to trade and industrial organisations which have not applied before to encourage them to apply, and adopting a more targeted approach to discuss with applicants with rejected proposals in order that their proposals can be revised and resubmitted quickly.

CEDB Q19
According to the information paper provided by the
Administration to the Legislative Council Panel on Commerce and Industry (LC Paper No. CB(1)632/14-15(03)), the Administration measures the effectiveness of BUD Fund with/ by the feedbacks from grantees and the number of new posts created under the projects. As some enterprises shared in the symposia held by BUD Fund that their performance had increased by 30% after participating in the programme, will the Administration use the participating enterprises' performance as one of the performance indicators of BUD Fund?

TID Q20

According to the information paper provided by the Administration to the Legislative Council Panel on Commerce and Industry (LC Paper No. CB(1)632/14-15(03)), the Administration measures the effectiveness of BUD Fund with/ by the feedbacks from grantees and the number of new posts created under the projects. As some enterprises shared in the symposia held by BUD Fund that their performance had increased by 30% after participating in the programme, will the Administration use the participating enterprises' performance as one of the performance indicators of BUD Fund?

The objective of the BUD Fund is to assist enterprises explore and develop the Mainland market through developing brands, restructuring and upgrading business operation, and promotion domestic sales. Driving sales performance is not a specific objective of the BUD Fund. Moreover, sales performance is usually affected by various factors, some of which are beyond control, for example, the overall economic environment, and the effect of a project on sales performance would take time to materialise.

Notwithstanding the above, with a view to having a comprehensive picture of the Fund’s effectiveness, we have in place a mechanism to collate and collect project information and feedback from grantees. The ESP Secretariat has been
conducting surveys with grantees upon completion of the projects and one year after completion of projects. Sales performance of the grantees after project completion is one of the aspects included in the survey.

As of end of November 2015, around 97% of the grantees responding to the completion survey considered the programme generally effective in assisting in the business development of enterprises, while all the grantees responding to the tracking survey considered the programme effective. Upon project completion, grantees generally considered that the project had helped them in various areas, including enhancing product competitiveness, enhancing the overall competitiveness of enterprises, enhancing corporate image, enhancing the awareness of the brand/product/service, increasing domestic sales turnover and developing domestic sales network, etc.
Public Accounts Committee  
Chapter 8 of the Director of Audit’s Report No. 66  
Procurement and inventory management of  
ICT products and services  
Supplementary Information requested

The Office of the Government Chief Information Office (“OGCIO”)

Part 2: Procurement of information and communications technology (“ICT”) products and services

1. According to paragraph 2.4, the Government was expected to be benefited from e-Procurement: improving efficiency and effectiveness by reducing the procurement cycle time, improving quality and accessibility of procurement information, reducing human errors and enhancing traceability, reducing transaction cost, and reducing purchase prices through consolidating and aggregating purchases across Government bureaux/departments (“B/Ds”). In this connection, will the administration inform this Committee whether it has assessed the e-Procurement programme about the said benefits? To what extent the B/Ds with e-Procurement implemented have benefited from the programme so far? (please provide supporting statistics, if any).

Reply:

Subsequent to the implementation of e-Procurement in three pilot departments, a review of the e-Procurement programme was completed in 2012 (see paragraph 2.6 of the Audit Report). The review confirmed that the expected benefits were achieved as follows:

- improved efficiency and effectiveness – E-Procurement eliminated the lead time for dispatching paper-based files from one location to another, hence the ordering cycle time was reduced by a few days to one week per case;

- improved quality and accessibility of procurement information, reduced human errors and enhance traceability – procurement activities were initiated, approved and recorded through the electronic workflow with appropriate authority checking in accordance with the Stores and Procurement Regulations and departmental procurement guidelines, and
hence human errors were reduced and quality improved. Procurement information from requisition to certification of receipt as well as authorisation records was readily available for retrieval and hence improved accessibility and traceability. Over 70% of the survey respondents agreed or strongly agreed that such improvements had been achieved;

- reduced transaction cost – there were annual fragmented, notional savings of $2.36 million for the three pilot departments, arising from reduced manpower effort in procurement activities; and

- reduced purchase price through consolidating and aggregating purchases across departments – there were such savings arising from the e-Procurement per se, but they were not significant because the Government had been aggregating purchases for many years and had proactively identified stores items that had high potential for bringing forth benefits when purchased in bulk volume. Bulk purchase contracts had been arranged whenever appropriate.

In September 2015, OGClO further collected feedback from the 8 B/Ds which had implemented the full function of e-Procurement as at that moment. Their feedback revealed that e-Procurement had achieved benefits including but were not limited to automated processes, improved work efficiency, cost reduction, better procurement control and compliance, better management of procurement records, and reduced paper consumption.

2. As far as e-Procurement programme is concerned, up to 31 October 2015, $80.1 million had been spent for the development and implementation of e-Procurement; however, only 10 of the some 70 B/Ds had implemented the full function of e-Procurement as of late December 2015 (paragraphs 2.8 and 2.10 refer). Audit found that the Customs and Excise Department (“C&ED”) and the Highways Department (“HyD”) had not implemented the full function of e-Procurement as not all suppliers or service providers had joined e-Procurement. The Financial Services and Treasury Bureau also considers that tight recurrent resources is unlikely to be the major reason underlying B/D’s slow roll-out of the full function of e-Procurement. In these connections, will the Administration inform this Committee the
reason(s) for the majority of B/Ds had not implemented the full function of e-Procurement? What measures will OGCIO take to attract more B/Ds to implement the full function of e-Procurement? How many B/Ds have now implemented the full function of e-Procurement? What is the timetable for the implementation of e-Procurement in the other B/Ds? What would you do if the number of B/Ds using the full function remains on the low side?

**Reply:**

It should be noted that the said $80.1 million covered both the development of full function and SOA function of e-Procurement. As at mid-May 2016, close to 70 B/Ds have implemented the SOA function whereas 11 B/Ds have implemented the full function.\(^1\) Another B/D (i.e. the 12\(^{th}\) B/D) will implement the full function by July 2016.\(^2\) Our target is to have 30 B/Ds implementing the full function by the end of the financial year 2017-18.

According to our liaison with B/Ds over the past year, there are various reasons for not implementing the full function. These reasons include the need to bear recurrent costs, limited internal resources (mainly staff resources) available to effect the change and provide ongoing support for the use of the new system. These are also reflected in the Audit Report (Paragraph 2.14), which states “Audit also found that the C&ED and the HyD had not implemented the full function of e-Procurement because:

(a) They had concern on the annual contribution payable;

(b) Additional resources (e.g. regular training and helpdesk service to be provided to users) would be required to handle e-Procurement transactions; and ...”

OGCIO will conduct a survey in June 2016 to request B/Ds to provide their plans for implementing the full function of e-Procurement and, failing that, the reasons and justifications. Based on the result of the survey, OGCIO will take appropriate measures to attract more B/Ds to implement the full function. Meanwhile, OGCIO will continue to promote both tangible and intangible benefits of e-Procurement to B/Ds.

While OGCIO endeavours to achieve the target of having 30 B/Ds implementing the full function of e-Procurement by the end of the financial year 2017-18, B/Ds have also been requested to provide reasons and justifications for not implementing the full function.

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1. The 11\(^{th}\) B/D that has implemented the full function of e-Procurement after publishing of the Audit Report is the Treasury.
2. The 12\(^{th}\) B/D is the Audit Commission.
year 2017-18, we will keep track of the computing resources usage and acquire the corresponding quantity of resources on the cloud environment, which will enable OGCIO to minimise the amount of potential deficit incurred by the e-Procurement programme in case the target of 30 B/Ds could not be fully met.

3. Audit found that there were large discrepancies between ICT expenditure of some B/Ds included in the expenditure published by OGCIO and the actual ICT expenditure of these B/Ds. Audit also noted that of the four departments, only OGCIO had planned and replaced its obsolete computers and related software on a continual basis (paragraph 2.35 refers). In these connections, will the Administration inform this Committee about the current policy on replacement strategies for ICT products among B/Ds? Is the current policy based on an across-the-board approach treating every B/D alike or on a flexible approach subject to the circumstances and needs of each B/D? Has the Administration set any specific targets on phasing out obsolete computers and related software among B/Ds? If it has, on what basis did the Administration set the specific targets; if it hasn’t, the reasons? To facilitate OGCIO’s monitoring on the software replacement conducted by B/Ds, will OGCIO consider publishing an annual list of the software which should be phased out and requesting B/Ds to replace the software accordingly? Since the Government Chief Information Officer agrees to consider issuing guidelines to B/Ds to facilitate their drawing up of replacement strategies for ICT products (paragraph 2.37(c) refers), what is the timetable for implementing this initiative?

Reply:
B/Ds, as owners of their computer systems and software, have the primary responsibility to develop and maintain their strategic IT plans for effective delivery of public services. B/Ds should draw up departmental IT plans, including the re-development and/or replacement of IT systems, to meet their business requirements and keep their plans up-to-date through regular reviews. It should be noted that an “across-the-board” approach for replacement of ICT products is normally not feasible because the ICT products being used in a B/D are unique and inter-related. Replacing a product may cause compatibility issues with other products, and the IT system must be comprehensively tested before a product can be replaced.
The potential compatibility issues and testing time vary from B/D to B/D.

B/Ds will take into consideration the business requirements, security requirements and cost-effectiveness of maintaining the respective systems to formulate plans and set targets for the replacement or re-development of computer system and software. For hardware and software products that are commonly adopted in the Government, for example, Windows-based desktop and notebook systems and Microsoft office productivity tools, OGCIO publishes guidelines and notice on de-supported software for B/Ds to formulate their computer system upgrade or replacement plan. OGCIO sets targets and coordinates government-wide technology replacement programme. OGCIO will continue to publish information on de-supported software to facilitate B/Ds in planning for their computer system upgrade/replacement, and request B/Ds to submit annual return on the IT project portfolios in their departmental IT plans.

For technologies and computer systems that are used by individual B/Ds, B/Ds need to be vigilant about their timely upgrade or re-development such that the systems can continue to achieve their original objectives with maintenance support. OGCIO will develop relevant guidelines for B/Ds’ reference by end August 2016.

Part 3: Control of ICT inventories

4. Audit found that up to 30 November 2015, 107 (11%) of 1 009 selected ICT inventory items had not been located by the departments concerned. The cost of these missing items amounted to some $451,000, while 32 (30%) of the 107 missing items were embedded with data storage devices (e.g. personal computers) (paragraphs 3.4 to 3.6 refer). Since the loss of data storage devices could be a breach of security according to the Security Regulations, will the Administration inform this Committee about the consequences of the breach (paragraph 3.6 refers)? Of the 107 missing items embedded with data storage devices, whether it is found that sensitive or confidential information was stored in those devices, please provide the details (paragraph 3.6 refers). What remedies have been taken to the parties affected due to the missing data storage devices? As the ICT inventory records of C&ED, the Environmental Protection Department (“EPD”) and
HyD were not properly kept (paragraph 3.11 refers), what steps have been/will be taken to improve the situation?

Reply:
Out of the 107 missing items, five items at a total amount of $27,701 belonged to the OGCIO. Among these five missing items, which include one PC, two CPU Processors, one Internal Tape Drive and one Monitor, only the PC was embedded with data storage device but the item was obsolete and unserviceable. The hard disk of the PC concerned had been removed and degaussed when the PC was retired from service. Therefore, the loss case does not constitute a breach of security according to the Security Regulations. The keeping of inventory records by C&ED, EPD and HyD will be addressed by the departments concerned.

Part 4: Disposal of ICT products

5. According to the Government Chief Information Officer, OGCIO will review the existing guidelines to require B/Ds to keep proper records on sample checks of erased storage media for compliance audit (paragraph 4.30 refers). What is the timetable for the review? The Government Chief Information Officer says the OGCIO will also develop a sample of data erasure certificate for B/Ds’ reference. What is the progress of this work? Will OGCIO establish a centralized system to record the ICT inventories held by B/Ds and periodically conduct ageing analysis of ICT inventories to review their condition and serviceability, so that OGCIO can remind B/Ds to timely dispose of the obsolete inventories in advance?

Reply:
The review of the existing guidelines to require B/Ds to keep proper records on sample checks of erased storage media for compliance audit is in progress and will be completed by end June 2016.

As the owners of their ICT systems, individual B/Ds have the primary responsibility for managing their ICT systems, including their obsolescence, timely update and timely disposal. B/Ds are required to keep inventory records and formulate their system re-development/replacement plan on a regular basis through the formulation of department IT plan.
OGCIO has promulgated the Government Technology and System Architectures (GTSA) framework in November 2015 to ensure consistency and facilitating the planning, defining, maintaining, and documenting the IT strategies across the Government. We have also implemented a central repository for B/Ds to keep records of their computer systems and software, and provide B/Ds with information on those computer software products that are approaching their end-of-support phase.

OGCIO, instead of establishing a centralised system to record the ICT inventories held by B/Ds, will continue to conduct surveys to obtain information on major software in use by B/Ds in their major ICT systems, and alert B/Ds to software support that will soon be discontinued by software vendors and also provide support services to facilitate software replacement. This will facilitate B/Ds in drawing up their replacement strategies for ICT products having regard to technology advancement in a timely manner.

Part 5: Provision of apps

6. According to Audit, the number of downloads of some apps for one-off events had been disappointingly low (paragraph 5.14 refers), some of the apps were catered for specific targeted users and did not have broad appeal, and some apps were virtually duplications of B/Ds’ websites (paragraph 5.7 refers). Will the Administration inform this Committee the current policy of Government apps development? For the sake of upholding the very principle of cost-effectiveness and value-for-money, do OGCIO’s guidelines provide clear and objective standards for B/Ds to decide if a Government app shall be developed (paragraph 5.5 refers)? Will OGCIO introduce any measures or guidelines, so as to justify the cost-effectiveness of developing apps for one-off events or specific targeted users, as well as to advise B/Ds with low website hit rates to develop mobile version of websites instead of developing apps to duplicate the websites; if yes, please provide the details? Does the Administration have any plans to introduce preliminary assessments and vetting procedures to examine whether a Government app shall be developed and the amount of budget should be allocated for developing the Government app?
With a population attuned to the latest technologies, the Government sees great potential in applying mobile technology to the delivery of government information and services. The Government has been proactively launching quality e-government services, with a view to bringing convenience to and improving the quality of life of the public. The development of mobile apps enhances and supplements the functions which cannot be comprehensively provided by websites, enabling the public to access the Government’s information and services anytime and anywhere in an instant and user-friendly operational environment.

Depending on their respective operational needs and modes of service delivery, B/Ds could decide if and how they should develop a mobile app. To assist and support them in developing apps that are practical and user-friendly, the OGCIO has formulated a practice guide for B/Ds’ reference. The practice guide provides B/Ds with a roadmap for mobile app development, setting out necessary steps involved. For instance, at the design stage, B/Ds should make proper use of various mobile device features, such as camera, Global Positioning System and push notifications.

The practice guide has also listed out some Do’s and Don’ts for B/Ds’ reference in developing mobile apps. It does advise that website content should not be copied to the mobile app direct. The practice guide also indicates that if the mobile app is for information only, B/Ds should consider developing a responsive website that can serve both web and mobile users, among other recommendations. The guidelines advise B/Ds to:

- evaluate the cost-effectiveness of the mobile app;
- review the use of the mobile app regularly to ensure target users’ needs are met; and
- do not merely focus on the layout and look of the mobile app since its functionality is more important.

As a general principle, developing a mobile app for a one-off event is not recommended under normal circumstances.

At present, when an application for developing a mobile app is submitted to the Administrative Computer Projects Committee (ACPC) established under OGCIO for approval of projects under Computerisation Block Allocation (i.e.
project cost greater than $200,000 and not exceeding $10 million), OGCIO would assess and vet the application having regard to the practice guide on various aspects of the development projects, for example, the justification of benefits claimed, and the possibility of utilising app templates or integrating with platform apps to reduce development costs. B/Ds are required to follow up on the suggestions and advice given by OGCIO.

7. It is stated in OGCIO’s good practice guide that a B/D should promote the app it developed to let more people use it (paragraph 5.8 refers). Apart from listing the apps on “GovHK Apps” and the GovHK website, what other strategies and efforts have been formulated and taken to better promote Government apps? Has the Administration conducted any reviews to assess the effectiveness of these strategies/efforts in promoting Government apps? Will OGCIO update its good practice guide to advise B/Ds that it is an important factor to develop apps which can provide most updated information to the public?

Reply:
A mobile app called GovHK Apps was launched in August 2012 to serve as a one-stop platform listing out all Government mobile apps to facilitate the public to search and download these apps. OGCIO has also taken various measures to promote public’s awareness of mobile apps developed by B/Ds, including publishing a booklet on government mobile apps, producing exhibition boards for display and making feature videos to publicise the great variety of government mobile apps that cater for different needs, and encourage the public to download and use them. Besides, newspaper columns on specific government mobile apps have been written to enhance public understanding of the apps.

We will also continue to list the apps on “GovHK Apps” and the GovHK website, which are effective for promotion. As at 29 February 2016, the total number of downloads of “GovHK Apps” was 162,035 times, while the GovHK mobile website recorded 677,980 average monthly visits. With the orchestrated promotion and publicity efforts by the B/Ds, public awareness and usage of government mobile apps have increased, as attested by the steady rise in download rates. To ensure the mobile apps developed by B/Ds are effective in meeting their respective objectives and user demands,
the practice guide will be reviewed and updated from time to time to provide them with the necessary professional guidance and support, including technology changes.

8. Are there any objective criteria to ascertain that the Government apps are value for money? If there are, please provide details, using “WSD Mobile App” as an illustration. If there are not such criteria, whether OGCIO will consider developing such criteria.

Reply:
It is difficult to assess the value-for-money of a mobile app or against other apps. The development cost is affected by a number of factors including the scope of functions and services, security and accessibility, etc., which also affect the maintenance cost. On the other hand, the number of downloads and convenience brought to its users are dependent upon a wide range of disparate factors like objectives, the size of target group audience/users (e.g. niche group or the wider public), special features, and the unique circumstances underlying the development needs and so forth. Therefore, it is not possible to apply a common set of criteria for the assessment of the value for money to all Government mobile apps. OGCIO will however continue to update the mobile apps practice guide for B/Ds’ reference.
Mr Anthony CHU  
Public Accounts Committee  
Legislative Council Secretariat  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong

27 May 2016

Dear Mr Chu,

Public Accounts Committee  
Consideration of Chapter 8 of the Director of Audit’s Report No. 66  
Procurement and inventory management of ICT products and services

Thank you for your letter dated 12 May 2016 to our department about the procurement and inventory management of ICT products and services.

We have provided a detailed reply in response to the information you requested. Please refer to the enclosure. Thank you.

Yours sincerely,

(YIP Man-chung)  
for Director of Government Logistics

Encl.

c.c. Government Chief Information Officer (fax no. 2511 5359)  
Secretary for Financial Services and the Treasury (fax no. 2147 5239)  
Director of Audit (fax no. 2583 9063)
Part 4: Disposal of ICT Products

1. What measures has the Government Logistics Department (GLD) taken to promote the formulation of ICT disposal strategies by Bureaux/Departments (B/Ds)?

The Stores and Procurement Regulations (SPRs) provide clear guidelines for B/Ds to dispose of unserviceable or surplus stores. According to SPRs, B/Ds may consider different methods of disposal (including donation to non-government organisations, commercial disposal or dumping) depending on the merits of each case. In general, factors including the residual value, resaleable value and public interest are taken into consideration.

GLD arranges contracts for the sale of used or unserviceable computers and accessories for B/Ds on a regular basis. In some of the contracts for the procurement of electronic office equipment, trade-in terms are added to facilitate the disposal of used items.

In respect of Audit’s recommendation that GLD should promote the formulation of ICT disposal strategies by B/Ds, GLD will, with due regard to the guidelines to be issued by OGCIO on the replacement of ICT products, issue a circular memorandum to B/Ds on the factors to be considered (including the service period, condition and serviceability of the items, etc.) for the disposal of these items. GLD will also request B/Ds to formulate good management practices and disposal strategies to facilitate periodic reviews and the timely disposal of obsolete ICT products.
31 May 2016

Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Mr. Anthony CHU)

Dear Mr. CHU,

Public Accounts Committee
Consideration of Chapter 8 of the Director of Audit’s Report No. 66
Procurement and inventory management of ICT products and services

In response to your letter dated 12 May 2016, I would like to provide the response and information in the Appendix.

Yours sincerely,

(T K CHENG)
for Director of Environmental Protection

Encl.
Appendix

Reply to the Public Accounts Committee on Chapter 8 of the Director of Audit’s Report No. 66 Procurement and Inventory Management of ICT Products and Services

Part 2: Procurement of ICT products and services

1. Why did EPD divide procurement of $4.6 million into six separate purchases in two months instead of consolidating purchases to achieve better economies of scale? Was the practice of separate purchases of EPD intended to bypass the financial limits under the Stores and Procurement Regulations ("SPRs") that a procurement with an estimated value of over $1.43 million, B/Ds should conduct open tendering given the short interval between each of the separate purchases (paragraph 2.2 refers)? If EPD considered it necessary to make separate purchases, what were the justifications for supporting EPD’s decisions (paragraph 2.19 refers)?

Reply:

The Environmental Protection Department ("EPD") has all along acted according to the SPRs. We have no intention to avoid tendering procedures. All the above procurements of computer hardware and software items were proceeded according to the procedures on acquisition under the Standing Offer Agreements ("SOAs"). As stated in paragraph 2.3 of the Audit Report, the Office of the Government Chief Information Officer ("OGCIO") and the Government Logistics Department ("GLD") arrange competitive open tenders periodically to shortlist suppliers that can provide ICT products and services to the OGCIO’s specifications. Shortlisted suppliers are placed on six SOAs for supplying six different types of ICT products and services (including personal computers). The six procurements concerned were made according to the procedures on acquisition under the SOAs. As indicated on page 21 of the Audit Report, these six procurements were made in different times (albeit quite close from 21 October 2013 to 3 December 2013) and, with the exception of Procurement 2 and 6, the remaining four procurements were for different items of computer hardware and software (Procurement 2 and 6 were for a same set of items, but the sum of the
procurement values was less than $1.43 million). In handling these procurements, we treated them individually by obtaining quotations from all qualified suppliers listed under the SOAs in six purchases, the contracts were awarded to the lowest conforming bids submitted.

The Audit Commission (“Audit”) opined that the above six purchases could have been consolidated into one and made through open tendering so as to achieve better economy of scale. We accept the view of the Audit and have issued a circular to remind colleagues responsible for procurement of computer hardware and software, that even though there might be certain variations in individual purchase items and short gap in timing of purchases, they should consolidate the purchases of different items into one as far as possible so as to achieve better economy of scale.

Part 3: Control of ICT inventories

2. Audit found that up to 30 November 2015, 107 (11%) of 1,009 selected ICT inventory items had not been located by the departments concerned. The cost of these missing items amounted to some $451,000, while 32 (30%) of the 107 missing items were embedded with data storage devices (e.g. personal computers) (paragraphs 3.4 to 3.6 refer). Since the loss of data storage devices could be a breach of security according to the Security Regulations, will the Administration inform this Committee about the consequences of the breach (paragraph 3.6 refers)? Of the 107 missing items embedded with data storage devices, whether it is found that sensitive or confidential information was stored in those devices, please provide the details (paragraph 3.6 refers). What remedies have been taken to the parties affected due to the missing data storage devices? As the ICT inventory records of EPD were not properly kept (paragraph 3.11 refers), what steps have been/will be taken to improve the situation?

Reply:

Regarding the follow-up actions on the classified data as mentioned in paragraph 3.6, as the four computers not located by us were used by junior staff for handling general administration work, which did
not involve sensitive or confidential information, no remedial actions as required in the Security Regulations were required to be taken.

Regarding paragraph 3.11, it was about 19 nos. of ICT inventory items – Ethernet routers, the record of which could not be updated timely. As shown in Table 11 on page 38 of the Audit Report, these 19 items had been traded-in and it did not involve any loss. We have started to review the procedures on the update of the records with a view to expediting the updating process and enhancing the accuracy. The review would be completed within this year.

Part 4: Disposal of ICT products

3. Concerning EPD’s donations of ICT products, of the 2 161 items of unserviceable ICT products, 1 366 (63%) were covered by the Government Logistics Department (“GLD”) disposal term contracts and, according to the SPRs, should have been sold to term contractors (paragraph 4.15(a) refers). Was EPD’s non-compliance a result of its negligence (i.e. EPD didn’t bother to check) or its lack of awareness (i.e. EPD didn’t even know it had to comply with SPRs)?

Reply:

We have all along acted in accordance with the procedures laid down in the SPRs regarding the disposal of serviceable ICT products in that the donation was made only if the items concerned were not wanted within the Government. As regards the donation of 2 161 unserviceable ICT products, 795 items were not covered by the GLD disposal term contracts and were donated without the need to sell to the disposal term contractors. Regarding the remaining 1 366 items, we arranged for donation of the surplus items to a charitable organization for proper recycling in line with the waste management policy of encouraging proper recycling which would also reduce final disposal to landfills (see Answer below as well). We note these items are covered by the GLD disposal term contracts and agree that under the prevailing regulations, we should have taken into account the disposal term contract arranged by the GLD before donating them to the charitable organisation.
4. Concerning EPD’s donations of ICT products, Audit found that all the donations were only made to one non-governmental organisation (paragraph 4.15(b) refers). Why did EPD donate its ICT products only to this non-governmental organisation? Had EPD had any connection/relationship with this organisation (e.g. previous partnership/cooperation) prior to donating its ICT products to this organisation? What efforts will EPD make to explore donations to more non-governmental organisations?

Reply:

The non-governmental organisation concerned, i.e. Caritas Computer Workshop\(^1\), is our key partner in the preparation of the producer responsibility scheme (PRS) on waste electrical and electronic equipment (WEEE), which aims to effectively collect and properly manage locally generated WEEE. It is the only known non-profit making organisation which possesses the relevant experience, capability and operating scale. Sending the relevant ICT products to the organisation could help ensure that they are properly recycled and reused, while allowing us to gain the relevant experience for the preparation for the PRS.

We would follow up with relevant government departments including GLD on the best arrangement to dispose unserviceable ICT products with regard to our waste management objective to promoting their proper disposal, reuse and recycling.

\(^1\) St James Settlement is another key partner as they have obtained funding from the Environment and Conservation Fund to operate the WEEE Go Green programme at the EcoPark. However, the WEEE Go Green programme focuses at the recycling and proper disposal of electrical appliances.
Consolidated response to PAC’s questions on Chapter 8 of the Director of Audit’s Report No. 66
Procurement and inventory management of information and communications technology (ICT) products and services

This note sets out the response of the Customs and Excise Department (C&ED) to the various questions as set out in the letter dated 12 May 2016 from the Clerk to PAC.

Part 2: Procurement of ICT products and services

Q1: Why did C&ED divide procurement of $2.1 million into two separate purchases in seven days instead of consolidating purchases to achieve better economies of scale? Was the practice of separate purchases of C&ED intended to bypass the financial limits under SPRs that a procurement with an estimated value of over $1.43 million, B/Ds should conduct open tendering given the short interval between each of the separate purchases (paragraph 2.2 refers)? If C&ED considered it necessary to make separate purchases, what were the justifications for supporting C&ED’s decisions (paragraph 2.19 refers)?

C&ED has examined the case. It is revealed that two subject procurement requests were processed on different dates for two batches of ICT products. Those purchases were for different purposes and users with various priority levels. Owing to the heavy workload and tight timeframe at the material time near the end of financial year, subject staff did not realize that similar items under the two requests could be combined for open-tender-procurement arrangement. There is no intention to bypass the requirement of open tendering under Stores and Procurement Regulations (SPRs).

C&ED welcomes the recommendation made by the Audit Commission and will consolidate procurement requests of ICT products and services of similar nature. All concerned staff have been reminded to observe the requirements of the SPRs. Staff at a higher level will also conduct a second-tier checking on all procurement requests to ensure compliance of the SPRs.

Part 3: Control of ICT inventories

Q2: Audit found that up to 30 November 2015, 107 (11%) of 1,009 selected ICT inventory items had not been located by the departments concerned. The cost of these missing items amounted to some $451,000, while 32 (30%) of the 107 missing items were embedded with data storage devices (e.g. personal computers) (paragraphs 3.4 to 3.6 refer). Since the loss of data storage devices could be a breach of security according to the Security Regulations, will the Administration inform this Committee about the consequences of the breach (paragraph 3.6 refers)? Of the 107 missing items embedded with data storage devices, whether it is found that sensitive or confidential information was stored in those devices, please provide the details (paragraph 3.6 refers). What remedies have been taken to the parties affected due to the missing data storage devices? As the ICT inventory records of C&ED were not properly kept (paragraph 3.11 refers), what steps have been/will be taken to improve the situation?
Among the 107 missing items of the four departments concerned, only 4 items belonged to C&ED. On 3 February 2016, C&ED informed the Audit Commission that 2 out of the 4 missing items had been located subsequently (Audit Report, paragraph 3.8 refers). There was no data storage device embedded in the 2 missing items (i.e. a video camera and a zip drive) and hence no issue of information leakage was involved. C&ED has already instituted the procedures stipulated in the Financial Circular No. 7/2003 and the SPRs to write off the two missing items accordingly.

C&ED has also taken steps to enhance the inventory control of ICT products. All concerned staff have been reminded to properly keep the inventory records in compliance with the SPRs. Supervisory checks have been carried out and annual stocktaking will also be properly conducted.

Q3: While C&ED had a computerized inventory control system, it still largely relied on its manual system for inventory control purposes. Furthermore, there were large discrepancies between the inventory records of C&ED’s computerized inventory control system and those of its manual system (paragraph 3.23 (b) refers). Will C&ED inform this Committee whether its reliance on the manual system was a result of the lack of familiarity of its staff with the computerized system or due to the complexity of the computerized system? Has C&ED assessed the amount of time could be saved by using the computerized system compared to the manual system? Will C&ED provide more trainings to its staff and improve the computerized system with a view to maximizing the benefits of the computerized system? Will C&ED stop using the manual system immediately? When reconciling the discrepancies between the inventory records in its computerized inventory control system and the manual inventory records, will C&ED accord high priority to input the manual inventory records into its computerized inventory control system?

Manual system has been an effective system to maintain full inventory records of all government property and stores as required under the SPRs. In 2010, C&ED developed a pilot computerized system named IT Asset System (ITAS) to strengthen the inventory deployment for six commonly used ICT products (i.e. monitor, workstation, scanner, printer, notebook computer and Blackberry devices). Given that the manual and pilot computerized system serve not exactly the same purpose with the pilot nature of the latter, C&ED is running the two systems in parallel.

C&ED welcomes the recommendation made by the Audit Commission and will study the feasibility of developing a full-fledged or enhancing the current pilot computerized system to maintain full inventory records of all nature of government property and stores in the long run. The study will also assess the amount of time could be saved by using computerized system compared to manual system.

C&ED has accorded high priority and deployed additional manpower to reconcile the discrepancies between the manual and computerized inventory records for maintaining the consistency of the records in both systems.
Q4. The Government Chief Information Officer said C&ED will consult OGCIO and GLD with a view to examining the feasibility of developing a full-fledged computerized inventory control system. Meanwhile, C&ED will enhance the IT Asset System to better support inventory control (paragraph 3.31 refers). In these connections, will C&ED provide a timetable for implementing the tasks? Will the tasks primarily focus on technical aspects? What efforts will be taken by C&ED to enhance a sense, habit and culture of utilizing a computerized inventory control system among its staff members?

C&ED will consult OGCIO and GLD to study the feasibility of developing a full-fledged computerized inventory control system and include the findings of consultation into a comprehensive Information Systems Strategy Study (ISSS) which is scheduled for 2017 to 2018.

Meanwhile, C&ED is enhancing the ITAS to provide better support for inventory control of ICT products in both technical and business aspects in two phases, which are scheduled for completion by late 2016 and mid-2017 respectively.

C&ED will continue to provide regular training with hand-on practices to staff members on the use of ITAS. We will also collect views from our staff on the future full-fledged computerized inventory control system to be included into the ISSS.

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As regards the Chapter 8 of the Director of Audit’s Report No. 66
Procurement and inventory management of
ICT products and services

Questions and request for information

Questions to be responded by Highways Department

Part 2: Procurement of ICT products and services

1. Audit noted that in a procurement made in 2014, in order to
fulfill the Standing Offer Agreement (“SOA”) requirements, HyD
ended up paying more for the goods it procured. Did HyD
consult GLD regarding the SOA requirements before it procured
the products? If not, why not? (paragraphs 2.20 and 2.21 refer)?

Answer:

Non-compliance with the SOA requirements will render the quotation
non-conforming. In order to uphold the principles of impartiality
and fairness in the procurement process and to guard against potential
challenges from the suppliers that have submitted a conforming
quotation, HyD did not and will not consider non-conforming
quotations, in accordance with the Acquisition Procedures under the
SOA. As such, HyD did not consult GLD regarding the quotations
not complying with the SOA requirements.

Part 3: Control of ICT inventories

2. Given that most of the missing items identified by the Audit
concerns HyD (94 out of 107 missing items) (paragraph 3.5
refers), and HyD was the only department out of the four
departments examined by the Audit that it had not computerized
its inventory control system (paragraph 3.23 refers), will HyD
inform this Committee why it had not computerized its inventory
control system? On 30 December 2015, HyD informed Audit
that 68 of the 94 missing ICT inventory items had been disposed of, but HyD’s manual inventory records did not provide sufficient details to support the disposal and 13 of the 94 items could not be located after extensive search (paragraphs 3.7(a) and 3.7(e) refer). Does HyD agree that the manual inventory records are not totally reliable? What is HyD’s plan and timetable for computerizing its inventory control system? What are the implications of computerizing HyD’s inventory control system in terms of cost and manpower?

Answer:

While there is no mandatory requirement under the Stores and Procurement Regulations (“SPRs”) to computerize the inventory control system, HyD agrees that computerizing the inventory control system could enhance the efficiency and effectiveness in managing the large inventory of the department. To that end, HyD has been observing the performance and development of computerized inventory control systems that different departments have adopted, which come in various system designs and formats, and are planning to replace its existing manual inventory system by a Computerized Inventory Control System (CICS), subject to approval of funding from OGCIO. The CICS project is proposed to commence in 2017 for system launching in 2019 tentatively.

The preliminarily estimated non-recurrent cost for implementing the CICS is approximately HK$3.2M, while the estimated recurrent cost is about HK$0.2M per annum. HyD considers that the department is able to absorb both the non-recurrent and recurrent manpower staff resource required internally.

3. Audit found that up to 30 November 2015, 107 (11%) of 1,009 selected ICT inventory items had not been located by the departments concerned. The cost of these missing items amounted to some $451,000, while 32 (30%) of the 107 missing items were embedded with data storage devices (e.g. personal computers) (paragraphs 3.4 to 3.6 refer). Since the loss of data storage devices could be a breach of security according to the
Security Regulations, will the Administration inform this Committee about the consequences of the breach (paragraph 3.6 refers)? Of the 32 missing items embedded with data storage devices, whether it is found that sensitive or confidential information was stored in those devices, please provide the details (paragraph 3.6 refers). What remedies have been taken to the parties affected due to the missing data storage devices? As the ICT inventory records of HyD were not properly kept (paragraph 3.11 refers), what steps have been/will be taken to improve the situation?

Answer:

HyD has all along attached great importance to strict adherence to the relevant security requirements for all data storage devices embedded with sensitive or confidential information. All confidential information in the data storage device should be properly encrypted. Prior to the disposal of any computers, no matter whether they had been involved in handling sensitive information or not, all information would be completely cleared from the data storage device through proper degaussing or physical destruction to prevent leakage of information.

During the stocktaking by Audit, 24 HyD’s ICT inventory items embedded with data storage devices could not be located. As at end May 2016, HyD has already located most of them and there are only 2 missing items embedded with data storage devices yet to be located. According to HyD’s record, these 2 missing items are devices which were procured in 1990’s for general office works, and do not contain any classified information. HyD is currently checking the file records with a view to confirming that these items have been traded-in or disposed of in the procurement and replacement exercises. Should any such items be unrecoverable, HyD would handle them in accordance with the procedures stipulated in the Security Regulations, the relevant Financial Circulars and the SPRs.

HyD is also preparing an internal accounting circular to remind its staff about the relevant security requirements including the OGCIO’s
ICT security guidelines. HyD will regularly remind the relevant staff and their supervisors to follow the circular to ensure that prior to the disposal or trade-in of ICT inventory items, all data stored therein will be cleared through proper degaussing or physical destruction. Also, independent sample checks of erased storage media will be performed and relevant records will be properly kept.

In order to ensure proper inventory management in HyD in accordance with the SPRs, the Government Logistics Department Circulars and HyD Supplies Guidelines, HyD has examined and proposed enhancements on inventory handling, including (i) introduction of cross-office sample checking mechanism in annual stocktaking (already commenced since end 2015), (ii) promulgation of departmental accounting circular for inventory management as soon as possible, (iii) continuing to conduct refresher courses to staff responsible for inventory management, and (iv) replacing the manual inventory control system with a computerized inventory control system, which HyD tentatively target to launch in 2019.

Highways Department
7th June 2016
25 May 2016

Clerk to Public Account Committee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Mr. Anthony CHU)

Dear Mr. CHU,

Public Accounts Committee
Consideration of Chapter 8 of the Director of Audit's Report No. 66
Procurement and inventory management of ICT products and services

To facilitate the Committee’s consideration of the matter we enclose responses to the questions on provision of apps. The replies are set out in the Annex for Members’ consideration.

Yours sincerely,

(CHAN Ki-hung)
for Director of Leisure and Cultural Services

Encl.
Part 5: Provision of apps

1. Five out of 10 apps with lowest average monthly number of downloads identified by Audit concern "King Yin Lei" developed by LCSD (Table 18 refers). Will LCSD inform this Committee why it had not consolidated five apps into one app given that the five apps were concerned with "King Yin Lei" and were developed under the same project and released on the same day?

Officially launched in April 2014, the series of five King Yin Lei apps was developed as part of the "Generic Platform for Virtual Reality Touring Programme for Monuments" of the Antiquities and Monuments Office to attract different age and interest groups of the general public.

Amongst the five apps, "King Yin Lei" app provided an overview of King Yin Lei, a declared monument, and its restoration works with video clips, panoramas and photos that was suitable for people who were interested in the history and restoration of the mansion. The other four apps were games targeting different age groups, i.e. "PhotoMe@King Yin Lei" app allowed visitors to take snapshots with different scenes of King Yin Lei as backdrops and was suitable for junior secondary school students or above; "Restore King Yin Lei" app set out the restoration processes of the declared monument through a guessing game and was suitable for senior secondary school students or above; and "Matching@King Yin Lei" and "Puzzles@King Yin Lei" apps were simple games targeting young children.

2. For those apps with limited mobile device features as listed in Table 19, what will LCSD do to improve them? For those apps with low download rates, what measures has LCSD taken to address the problem? Will they be decommissioned?

For the 8 apps listed with limited mobile device features, only two (Bruce Lee: Kung Fu • Art • Life and My Culture) are still available for public download. The other six have already been decommissioned. LCSD has implemented as far as possible relevant mobile device features in the apps to enhance their attractiveness. For instance, mobile device features such as camera and sharing function were provided in Bruce Lee: Kung Fu • Art • Life, while location services and mobile map were featured in My Culture. LCSD will regularly review the download rate of its apps and make necessary enhancements in response to public feedback. Apps which fail to attract a satisfactory number of downloads will be decommissioned as soon as possible to save maintenance cost. Contents suitable to be retained will be disseminated to members of public through other channels.
For the Water Supplies Department

Part 5: Provision of apps

Question 1(a) :
The development cost of “WSD Mobile App”

Response:
The development cost of “WSD Mobile App” is about HK $1.57 million.

Question 1(b) :
The amount of resources needed for the implementation of the other three enhancement features? Has WSD explored any means to minimize the development costs for the other three enhancement features?

Response:
The estimated resources needed for the implementation of the other three enhancement features are approximately HK $700,000. WSD has already minimized the cost by implementing the enhancement features through deployment of existing interface/programme as far as practicable to save the cost of building new interface/programme.

Question 2 :
For the app with limited mobile device features as listed in Table 19, what will WSD do to improve it?

Response:
Apart from the two mobile device features of push notification and link to calling function of the “WSD Mobile App” listed in Table 19, WSD has introduced an additional mobile device feature of quick response (QR) code to facilitate customers to pay water charges at convenience stores with mobile phone since March 2016. We will explore other mobile device enhancement features including location services, sharing function, offline games etc. in the “WSD Mobile App” subject to availability of resources and consideration of cost effectiveness.
Mr Anthony CHU  
Clerk, Public Accounts Committee

Dear Mr CHU,

Public Accounts Committee  
Consideration of Chapter 8 of the Director of Audit’s Report No. 66  
Procurement and inventory management of ICT products and services

Thank you for your letter of 12.5.2016 on the captioned subject. My reply is appended below:

Part 5: Provision of apps:

Fire Services Department released three different mobile applications, namely "FSD Master Mobile Application", "Live Safe, Be Watchful" and "Stay Calm and Collected" on 15 May 2014 across a diverse group of target users. To take full advantage of the key mobile functionality, FSD Master Mobile Application aims to actively promote fire safety information and ambulance service by using the technology of Augmented Reality, GPS, camera, mobile map and push notification for automating the delivery of information to mobile devices, while both "Live Safe, Be Watchful" and "Stay Calm and Collected" work differently by exploiting the particular interactive features as educational simulation games. The core function of these two educational games is to help players to learn and practise important ideas and skills in assessing the potential fire hazards in the building, and to offer a collection of mini-games to test their handling skill in simulated daily-life emergency situation in different ways.

Hence, the game apps would not include mobile device features other than 'Games to run offline' and 'Sharing function', normally. However, we will include feature of 'Quick response (QR) code' in all three FSD mobile apps in the near future.

Yours sincerely

(LEUNG Kwun-hong)  
for Director of Fire Services
Public Accounts Committee
Procurement and inventory management of ICT products and services

Response from Department of Health (DH)

The Department of Health (DH) will continue to review regularly the contents of the apps for enhancement if needed and to find possible ways to step up promotion of the apps to boost the number of download and consider decommissioning the apps if they are found not to meet the original objectives. DH has started to revamp the “1069 試戴樂” app and plans to have an English version next year. Please refer to the table below for detail of individual apps.

<table>
<thead>
<tr>
<th>Item</th>
<th>Mobile Application (app)</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>CookSmart: EatSmart Recipes</td>
<td>This app has been enhanced to include EatSmart Recipes search function in late December 2015. The average monthly number of downloads was increased to about 4,700 as at 30 April 2016. Promotion will be conducted to tie in with the respective campaign activities.</td>
</tr>
<tr>
<td>2.</td>
<td>EatSmart Restaurant</td>
<td>The coupon function of this app will be enhanced this year. Promotion will be conducted to tie in with the respective campaign activities.</td>
</tr>
<tr>
<td>3.</td>
<td>Framework@PC</td>
<td>The app has been put under regular review. New modules and contents will be incorporated, where appropriate. DH will continue promoting the app through various channels.</td>
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<tr>
<td>4.</td>
<td>Hong Kong Chinese Materia Medica Standards Volume 1</td>
<td>DH will review regularly the contents of this app in order to ascertain whether the contents could be enhanced to attract more people to use the app.</td>
</tr>
<tr>
<td>5.</td>
<td>IMPACT</td>
<td>The IMPACT Guidelines is being reviewed. An updated version of the app with enhanced mobile device features including push notification and sharing function will be launched in 2017. DH will promote the enhanced app to the target users and encourage download.</td>
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<tr>
<td></td>
<td>Primary Care Directory (PCD)</td>
<td>Promotion of this app to the public via mass transport media, Internet, government services and non-government organisations will be continued. DH will continue to monitor the download rate and usage of the app, and consider decommissioning the app if the usage is low.</td>
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<td>7.</td>
<td>Quit Smoking</td>
<td>DH will continue reviewing the app and improve the features if necessary. We will continue promoting this app to enhance public awareness of our app through various channels.</td>
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<tr>
<td>8.</td>
<td>Snack Nutritional Classification Wizard</td>
<td>A review on its contents and functions is being conducted. Promotion will be conducted to tie in with the respective campaign activities.</td>
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<tr>
<td>9.</td>
<td>Student Body Weight for Height Check</td>
<td>DH will continue to promote the app to our clients including new batches of students through various channels. We will also explore the feasibility of enhancing the functions of the app.</td>
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<tr>
<td>10.</td>
<td>1069 試戴樂</td>
<td>DH has started to revamp this app and plans to have an English version next year. DH will continue to enhance health promotion, HIV prevention, safer sex and early HIV testing for the local MSM community through different means and channels.</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>AFCD</td>
<td>Agriculture, Fisheries and Conservation Department</td>
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<td>apps</td>
<td>Mobile applications</td>
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<td>ASMTP</td>
<td>Admission Scheme for Mainland Talents and Professionals</td>
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<td>Audit</td>
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<td>Director of Audit's Report</td>
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<td>Dedicated Fund on Branding, Upgrading and Domestic Sales</td>
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<td>CEDB</td>
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<td>DLOs</td>
<td>District Lands Offices</td>
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<td>DVAs</td>
<td>Designated village areas</td>
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<td>EMSD</td>
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<td>FMO</td>
<td>Fish Marketing Organization</td>
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<td>FSTB</td>
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<td>Description</td>
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<td>HKAPA</td>
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<td>HKPC</td>
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<td>Highways Department</td>
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<td>Lifts and Escalators Ordinance (Cap. 618)</td>
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<td>L&amp;Es</td>
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<td>PWD</td>
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<td>RE</td>
<td>Registered Engineer</td>
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<td>the Rent Ordinance</td>
<td>Government Rent (Assessment and Collection) Ordinance (Cap. 515)</td>
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<td>Unauthorized building works</td>
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<td>Vegetable Marketing Organization</td>
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