

CHAPTER 4

PUBLIC BODY

Vocational Training Council

Management practices of the Vocational Training Council
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**Audit Commission
Hong Kong
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MANAGEMENT PRACTICES OF THE VOCATIONAL TRAINING COUNCIL

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MANAGEMENT PRACTICES OF THE VOCATIONAL TRAINING COUNCIL

Summary and key findings

A. **Introduction.** The Vocational Training Council (VTC) is the principal organisation in Hong Kong providing vocational education and training. The VTC is funded by government subvention. The estimated financial provision for 1999-2000 is \$2,138 million (paras. 1.1 to 1.4).

B. **Audit review.** Audit recently conducted a review of selected areas of the VTC's management practices. Audit has identified some areas for further improvement (para. 1.5).

C. **Contract gratuity.** The VTC staff who were on agreement terms had been paid 25% contract gratuity on completion of contracts. By March 1996, six out of the seven local tertiary institutions had reduced contract gratuity from 25% to 15%. The 15% has become the prevailing gratuity rate for appointment in local tertiary institutions. However, the VTC, as a post-secondary educational institute, did not adopt the prevailing rate until March 1999. The VTC could have saved substantial amount in gratuity payment if it had taken early action to reduce the gratuity rate (paras. 2.2 to 2.9).

D. **Staff Loan Scheme (SLS).** The VTC established an SLS to provide short-term financial assistance to its staff. Loans granted under the SLS are pledged against the staff's provident fund benefits. Audit noted that a significant proportion of loans had been renewed, and that the majority of borrowers had only repaid monthly interest. This arrangement is not satisfactory because the principal is not repaid and could remain outstanding until retirement. It is questionable whether this is in the long-term interest of the staff as a significant portion of the accumulated provident fund originally provided for retirement will have to be used to repay the outstanding loan principal. Audit further noted that the staff are not required to state in the loan applications the purposes of the loans. This would encourage the staff to put themselves in a position of undue indebtedness (paras. 2.12 to 2.19).

E. **Encashment of vacation leave.** In July 1992, the VTC informed the Council members that a leave encashment scheme would be implemented on trial. However, the VTC did not implement the scheme as a trial scheme and asked the staff to opt irrevocably to encash part of their leave. Despite the scheme, some staff still could not exhaust their leave. Although the scheme involved additional government funding, the VTC had not sought prior approval from the Administration. In 1998-99, payment of leave encashment amounted to some \$4 million (paras. 2.22 to 2.33).

F. **All-in pay package.** The VTC offered to a senior staff member an all-in pay package of \$145,000 a month. Despite the availability of vacant staff quarters, the staff member was not required to live in quarters but was paid a monthly cash allowance in lieu. In addition, contract gratuity was payable monthly to the staff member instead of upon satisfactory completion of the contract (paras. 2.36 to 2.38).

G. **Procurement by tendering.** Audit examined 20 contract agreements. Audit noted that in three contracts, the VTC had not procured the services by open and competitive tenders. Without conducting tendering exercises, there was no objective basis to ascertain whether best value for money had been obtained (paras. 3.4 to 3.13).

H. **Procurement by direct purchase authority.** The Financial Rules of the VTC state that where it is impracticable to tender, the VTC may procure stores or services by direct purchase upon obtaining at least five quotations. Audit examined 125 direct purchase cases and noted that in 28 cases, the VTC had not obtained more quotations before placing orders with a single supplier. Obtaining more quotations would have provided assurance that the amount paid for the direct purchase was reasonable (paras. 3.17 to 3.27).

I. **Building of senior staff quarters.** In 1993, the VTC decided to construct 100 senior staff quarters in Chai Wan. The construction was financed by a bank loan which was to be repaid by government subvention. Audit noted that there was an increase in the project estimate of \$85 million because of changes to the original design. The VTC had not sought the Administration's approval for the significant increase in the project estimate. The increase in project cost had lengthened the repayment period by two years and would increase public expenditure (paras. 4.4 to 4.10).

J. **Reprovisioning of swimming pool.** A major works item in the staff quarters project was the reprovisioning of a swimming pool in the then Chai Wan Technical College (CWTC), which cost some \$11 million. Audit noted that the utilisation of this replacement swimming pool, and another pool in the Tsing Yi Campus, had been low. Audit also noted that the VTC had not performed any utilisation survey prior to the construction of the replacement pool in the CWTC. If a survey had been conducted, it would have been found that a smaller replacement pool in the CWTC was sufficient (paras. 4.14 to 4.21).

K. **Vacant quarters.** As at 30 June 1999, 15 out of the 100 senior staff quarters were left vacant. Some of these 15 quarters had been vacant for considerable periods. The notional rents for the vacant period are estimated to be about \$10 million (paras. 4.24 to 4.37).

L. **Home Financing Scheme (HFS).** In November 1998, the Finance Bureau started to assess the viability and financial implications of implementing an HFS for the VTC. An HFS would reduce the Government's expenditure on housing benefits. However, there is still no clear indication as to whether the HFS would be implemented for the VTC (paras. 4.40 to 4.47).

M. **Framework agreement and performance indicators.** A framework agreement sets out clearly the duties of the VTC, Government's policy on vocational training, the relationship between the Government and the VTC, and their accountability to the public. By June 1999 (six years after the idea of such an agreement was initiated by the Government), a framework agreement between the Government and the VTC had still not been finalised. Audit also noted that there is a lack of adequate key performance indicators which are agreed between the Government and the VTC to measure the results of providing the vocational education and training services (paras. 5.2 to 5.15).

N. **Audit recommendations.** Audit has made the following major recommendations that:

- the Executive Director, VTC should:
 - (i) take account of the conditions of service of other tertiary institutions, subvented bodies and the Government when modifying and setting levels of remuneration and staff benefits (para. 2.10);
 - (ii) require the staff to repay both the interest and principal of a loan under the SLS, and set out the specific purposes for which staff can apply for loans (para. 2.20);
 - (iii) provide sufficient and accurate information in seeking the Council's approval for changes in staff benefits, and seek the Administration's prior approval before implementing plans which might involve additional government funding (para. 2.34);
 - (iv) always try to allocate staff quarters to eligible staff, and pay contract gratuity only upon satisfactory completion of a contract (para. 2.39);
 - (v) ensure that all goods and services are procured through open and competitive tenders (para. 3.14);
 - (vi) issue instructions to purchasing staff reminding them of the requirement to obtain a minimum of five quotations for the direct purchase (para. 3.28);
 - (vii) avoid making major changes to the original design which will lead to significant increases in project cost, and seek approval from the Administration for significant changes in project cost (para. 4.11);
 - (viii) increase the utilisation of the swimming pools, and take into account the utilisation rate before making capital works decisions (para. 4.22); and
 - (ix) assess the future demand for quarters by eligible staff, and take action to deal with the surplus quarters (para. 4.38);
- the Administration should complete as soon as possible the examination of the viability of implementing an HFS for the VTC (para. 4.48); and
- the Secretary for Education and Manpower and the Executive Director, VTC should expedite action to finalise the framework agreement, set adequate output and outcome performance indicators, and promulgate key performance indicators in the Annual Estimates for stakeholders' information (para. 5.16).

O. **Response from the VTC and the Administration.** The Executive Director, VTC and the Administration have generally accepted the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the establishment of the Vocational Training Council (VTC) and the objectives of the audit review.

Background

1.2 The VTC is the principal organisation in Hong Kong providing vocational training and education through full-time and part-time courses. Vocational education and training is provided at craft, technician, and higher technician levels in a range of disciplines in the Institute of Vocational Education (IVE) (Note 1) and 24 Industrial Training Centres. The VTC is also responsible for training disabled people for open employment in three Skills Centres. Moreover, it is responsible for other services and programmes designed to support training and skills acquisition. These include the New Technology Training Scheme and the Hong Kong Management Development Centre.

1.3 The VTC was established under the Vocational Training Council Ordinance (Cap. 1130) in 1982. Council members are appointed by the Chief Executive of the Hong Kong Special Administrative Region. The VTC can have up to 23 Council members consisting of the Executive Director of the VTC, not more than 18 persons who are not public officers and not more than four public officers. Council members represent industry and commerce, higher education and the trade unions. The VTC is supported by three standing committees, 20 training boards and eight general committees overseeing different aspects of the VTC's activities.

1.4 Headed by the Executive Director, the VTC has a staff of about 4,000. The VTC is funded by government subvention of which the Secretary for Education and Manpower is the controlling officer. The estimated financial provision for 1999-2000 is \$2,138 million.

Audit review

1.5 Audit recently conducted a review of selected areas of the VTC's management practices. Audit noted that there is room for improvement in the following areas:

- administration of remuneration and fringe benefits (PART 2);
- procurement of goods and services (PART 3);
- building and use of senior staff quarters (PART 4); and
- finalisation of a framework agreement between the Administration and the VTC and setting of performance indicators (PART 5).

Note 1: *The IVE comprises two Technical Colleges and seven Technical Institutes. These colleges and institutes were integrated into one collaborative institution known as the IVE in the academic year 1999-2000.*

PART 2: ADMINISTRATION OF REMUNERATION AND FRINGE BENEFITS

2.1 This PART examines the adequacy of administration of remuneration and fringe benefits by the VTC.

Contract gratuity

2.2 When the VTC was first set up in 1982, the Administration agreed that the conditions of service of staff engaged by the VTC should be based on those of the then Hong Kong Polytechnic (now the Hong Kong Polytechnic University). This was mainly because the VTC took over the diploma and certificate courses from the then Hong Kong Polytechnic.

2.3 VTC staff belonging to the Teaching and Equivalent Administrative Ranks on both VTC Pay Scales A and B (Note 2) are appointed on agreement terms initially, normally for two years. A contract gratuity is payable upon satisfactory completion of the contract. Before March 1999, the contract gratuity of VTC staff had been fixed at 25% of the basic salary earned during the contract period. This was based on the practice of the then Hong Kong Polytechnic.

2.4 In May 1995, the Hong Kong Polytechnic University decided to implement a new set of common terms and conditions of service for new appointees and re-appointees of teaching and administrative staff, irrespective of whether they were local or overseas staff. Under this new set of common terms and conditions of service (being also a cost saving measure), contract gratuity was reduced from 25% to 15% with effect from January 1996.

2.5 In March 1996, the VTC conducted a review of its terms and conditions of service for its teaching and administrative staff. In response to the VTC's enquiries, the Hong Kong Polytechnic University advised that, among other things, contract gratuity had been reduced from 25% to 15%. In May 1996, the VTC introduced common terms and conditions of service to both its local and overseas staff so as to keep in step with those of other tertiary institutions. **However, the VTC did not reduce the contract gratuity rate.**

2.6 Audit noted that since May 1995, six out of the seven tertiary institutions in Hong Kong had already reduced the contract gratuity rate from 25% to 15%. However, the issue of contract gratuity was only raised two and a half years later by the VTC in November 1997, when a member of the VTC Administration Committee noted at a meeting that most tertiary institutions had reduced the contract gratuity rate to 15%. It was agreed at the meeting that the matter "*might be looked into by the Council in the longer term*". In February 1998, this issue was again raised at a meeting of the VTC Administration Committee. It was again agreed that the issue "*might be looked into by the Council in the longer term*". It was not until March 1999 that the VTC decided that the rate would

Note 2: *VTC Pay Scales A and B are equivalent, respectively, to the Directorate Pay Scale and the Master Pay Scale of the civil service.*

be reduced from 25% to 15% with effect from July 1999 (Note 3). The reduction was made as a cost saving measure required by the Government's Enhanced Productivity Programme (Note 4).

2.7 In response to Audit's enquiries, the Executive Director, VTC has informed Audit that:

- the VTC considered that the review of its conditions of service in March 1996 was concerned with common/unified terms of service and levelling the benefits of local and expatriate staff. At the time, all the tertiary institutions were consulted. It so happened that the information supplied by the Hong Kong Polytechnic University included the change in gratuity payments. Therefore, the contract gratuity was not an issue being considered;
- in terms of salaries, salary scales and the availability of senior posts, academic appointments in the VTC are far less attractive than those in the tertiary institutions. In 1995, the activities of the VTC were still expanding due mainly to the transfer of sub-degree courses from the then City Polytechnic and the then Hong Kong Polytechnic. A large number of teaching staff was recruited during the years 1995, 1996 and 1997. The VTC considered that it was important to keep its remuneration packages competitive in order to be able to recruit and retain high quality staff in the booming economic climate. Consequently, the VTC, in considering its recruitment needs and market competitiveness at the time, concluded that the 25% rate of contract gratuity should be maintained in order to attract staff of appropriate calibre; and
- while the VTC's conditions of service had taken into account those of the then Hong Kong Polytechnic, the VTC actually established pay scales, leave, and gratuity levels, based on those of the Government. With effect from July 1999, the VTC has reduced the gratuity level from 25% to 15% for all new recruits, as well as the existing staff upon renewal of their contracts. However, the VTC understands that serving civil servants on contract terms will continue to receive contract gratuity at the rate of 25%.

Audit observations and recommendations on contract gratuity

2.8 Audit notes that the salary scales of VTC staff are lower when compared with those offered by the tertiary institutions. In 1990, the then Executive Director, VTC pointed out at a Council meeting that the VTC pay scales were based on those of the two Polytechnics. They took into account the fact that VTC staff would not have to teach degree courses. Audit considers that the salary scales for VTC staff reflect the appropriate level of duties.

Note 3: *As the VTC had a contractual obligation to inform staff whether they would be offered further employment four months prior to expiry of their contracts, the VTC decided to revise the gratuity rate four months after March 1999, i.e. in July 1999.*

Note 4: *The Chief Executive announced in his 1998 Policy Address the launch of an Enhanced Productivity Programme across the public sector. The Programme requires government departments and government subvented organisations to provide new or improved services using existing resources or to deliver real dollar savings in the 1999-2000 financial year through productivity gains. By 2002-03, they are further required to reduce their baseline operating expenditure by 5%.*

2.9 Many local tertiary institutions had already reduced the contract gratuity from 25% to 15%. The 15% rate has become the prevailing gratuity rate for appointment in local tertiary institutions. The VTC should have adopted the 15% at a much earlier date. This is because the VTC is also a post-secondary educational institute. Audit estimates that the amount of additional payment involved during the relevant period between 1996 and 1999 amounted to \$64 million. A substantial amount could have been saved had early action been taken to reduce the gratuity rate to 15%.

2.10 **Audit has recommended that the Executive Director, VTC should:**

- **take account of the conditions of service of other tertiary institutions, subvented bodies and the Government when modifying and setting levels of remuneration and staff benefits; and**
- **take prompt action to implement changes in conditions of service so as to avoid incurring nugatory expenditure resulting from a delay in implementation.**

Response from the VTC

2.11 The **Executive Director, VTC** agrees to take account of the conditions of service of other tertiary institutions, subvented bodies and the Government. He has also said that he will continue to take prompt action to implement changes in conditions of service.

Staff Loan Scheme

2.12 In April 1996, the VTC established a Staff Loan Scheme (SLS) to provide financial assistance to its staff. Under the SLS, the VTC entered into an agreement with a bank in Hong Kong which would provide unsecured loan facility of up to \$150 million to the VTC for on-lending to the VTC's serving employees who are aged 21 or above, and who are members of the VTC Provident Fund Scheme. The loan facility is renewable annually by the bank. The VTC in fact acts as the guarantor. The VTC regards the SLS as a fringe benefit to its staff and as such it enhances the VTC's goodwill as a caring employer.

Terms and conditions of the SLS

2.13 The main terms and conditions of the SLS are as follows:

- eligible staff are allowed to borrow from the VTC up to 60% of their provident fund benefit entitlements;
- loans granted under the SLS are pledged against the staff's provident fund benefits;

- interest is to be charged at the best lending rate;
- the agreed period of the loan is 12 months, and is renewable annually subject to the approval of the Executive Director, VTC; and
- there is no fixed repayment schedule during the loan period and the staff are only required to pay the monthly interest by deduction from their monthly salaries.

Amount of staff loans granted

2.14 Table 1 below shows the amount of staff loans granted since the inception of the SLS.

Table 1

Staff loans granted

Financial year	No. of loans granted	Total amount	Average amount	Maximum amount
		(\$)	(\$)	(\$)
1996-97	214	41,780,000	195,000	800,000
1997-98	168	33,860,000	202,000	1,100,000
1998-99	84	19,650,000	234,000	1,000,000
1999 (April to June)	23	2,820,000	123,000	400,000
	<u>489</u>	<u>98,110,000</u>		

Source: VTC's records

As can be seen from Table 1 above, since the introduction of the SLS in April 1996, a total of \$98 million had been granted. Individual loans were as high as \$1.1 million.

Terms of the loans

2.15 Audit randomly selected 100 loans to examine the loan position. The examination showed that only 18 staff members (or 18%) had partially or fully repaid the principal in the second year of the SLS. The vast majority chose to pay interest only. Several staff members even increased their loans in the second year. Because of the winding-up of the old provident fund scheme, all borrowers including these 100 staff members were required to repay the loans by March 1999.

Purposes of the loans

2.16 The SLS was originally intended to provide financial assistance to members of the VTC Provident Fund Scheme for specific purposes. However, the VTC had not set out the circumstances under which the staff could apply for a loan.

2.17 Audit's examination of the VTC's records indicated that, before March 1999, the staff were required to state in their loan applications the purposes of obtaining the loans. Audit therefore selected and reviewed the loan applications made during the period April 1996 to March 1999. It was observed that:

- the VTC had approved all 489 loan applications. Some of the purposes of the loans were stated as:
 - investment
 - home decoration
 - travelling
 - tax payment
 - personal contingency
 - mortgage repayment
 - property purchase
- in approving these loans, the VTC had not raised any queries on the purposes of the loans, with the exception of one application. In this application, a staff member earning a monthly salary of \$11,880 applied for a loan of \$100,000 (i.e. about nine times her monthly salary) to subsidise her parents for taking an overseas trip. There were initial doubts on whether the loan would result in additional financial burden on her. The loan was eventually approved because, according to the terms and conditions of the loan, she only had to repay the monthly interest. It was considered that repaying interest would result in minimal financial burden on her; and
- no supporting documents had been obtained to verify the purposes of the loans.

Audit also noted that, starting from March 1999, the staff were no longer required to state in their loan applications the purposes of the loans. The VTC would routinely approve the loan applications (other than in exceptional circumstances e.g. the staff have tendered their resignation or are under disciplinary action).

Audit observations and recommendations on SLS

2.18 A loan under the SLS is for short-term financing as the duration of the loan is for 12 months (see paragraph 2.13 above). Renewal of the loan is subject to the approval of the Executive Director, VTC. However, Audit's examination of 100 loans shows that a significant proportion of loans under the SLS had been renewed. In addition, the majority of borrowers chose to repay interest only. The arrangement that the staff only need to repay monthly interest is not satisfactory because they are not required to repay the principal. The principal amount could remain outstanding until their retirement. It is questionable whether this is in the long-term interest of the staff as a significant portion of the accumulated provident fund originally provided for retirement will have to be used to repay the outstanding loan principal.

2.19 Furthermore, the VTC did not specify the purposes for which the loan would be approved. Since March 1999, it had even abandoned the requirement that applicants were required to state in the loan applications the purposes of the loans. VTC staff can borrow for almost any reason. Without examining the reasonableness of the purposes of the loans, the SLS would encourage the staff to put themselves in a position of undue indebtedness.

2.20 **To ensure prudent personal financial management and to safeguard the retirement benefits of the staff, Audit has *recommended* that the Executive Director, VTC should:**

- **require VTC staff to repay both the interest and principal of a loan under the SLS so as to reduce the long-term liability of the staff;**
- **set out clearly the specific purposes for which VTC staff can apply for loans; and**
- **request VTC staff to provide documentary evidence to confirm that the loans have been used in accordance with the purposes stated in the loan application.**

Response from the VTC

2.21 The **Executive Director, VTC** has stated that the VTC appreciates the audit comments. The VTC observes that the loan scheme does not involve public funds, and that the loans are secured by funds belonging to members of staff. Nevertheless, the VTC proposes to review the staff loan scheme carefully with the objective of introducing a requirement for an appropriate purpose for the loan, and the introduction of repayments to be made on an interest plus principal basis.

Encashment of vacation leave

2.22 Prior to August 1992, VTC staff who were in the non-teaching ranks of the Teaching and Equivalent Administrative Grades (non-teaching staff) were entitled to 90 days of vacation leave

within a tour of service of two years. They were required to take all their leave before the commencement of the next tour of service. While there were arrangements for teaching staff to take their vacation leave during the low activity periods, thus enabling them to take all their leave during a two-year tour, similar arrangements did not exist for non-teaching staff. The VTC considered that these non-teaching staff were unable to take all their entitled leave, without affecting seriously the operational efficiency of the VTC.

2.23 In early 1992, the VTC proposed a leave encashment scheme to reduce the vacation leave entitlement of non-teaching staff by allowing them to encash a portion of their leave entitlement. This scheme would enable them to take their earned leave during a tour of service of two years. Non-teaching staff were allowed to opt to encash 30 days vacation leave for each two-year tour of service, or to continue to enjoy their existing leave entitlement. In July 1992, prior to the implementation of the leave encashment scheme, the Executive Director, VTC informed the Council members that the scheme would be implemented on *a trial basis* and be reviewed in three years' time in 1995.

2.24 In August 1992, after seeking approval from the VTC Administration Committee, the VTC introduced the leave encashment scheme. Of the 266 staff who were eligible, 187 (70%) opted to join the scheme. Concurrently, the VTC reduced the vacation leave entitlement of new staff appointed to these ranks from 90 to 60 days within a two-year term of service. Although the scheme would involve additional government funding, the VTC did not seek approval from the Administration for its implementation. In 1998-99, payment of leave encashment amounted to some \$4 million.

Audit query in 1993

2.25 Audit observed that there was no similar scheme in existence in the civil service and that the VTC's scheme involved additional government funding. In January 1993, Audit asked the Administration to take up the matter with the VTC and to inform Audit whether the scheme was acceptable to the Government, having regard to the Government's policy on vacation leave and the financial implications of the encashment scheme.

2.26 Audit also drew the Administration's attention to a similar case in 1990 when the Chinese University of Hong Kong proposed the introduction of a similar scheme. The Administration rejected the proposal on the grounds that encashment of leave during an employee's service was never permitted and was not permissible for a civil servant.

2.27 In response, the VTC stated that it had considered three different options to address the issue of vacation leave of non-teaching staff:

- *Option 1 – Acting appointment by other staff.* This was not considered to be a viable option because the efficiency of the staff could not be maintained on a long-term basis;

- *Option 2 – Employing additional staff as leave reserve.* This was the most expensive option. It was considered not cost-effective taking into account the time the new staff would need before they became fully effective; and
- *Option 3 – Encashment of vacation leave.* This option was chosen because it was cheaper than Option 2. This option would result in greater operational efficiency in the short term and in substantial savings in staff cost in the long term.

2.28 The VTC stated that option 3 was the preferred option. In April 1993, the Administration eventually gave its covering approval to the leave encashment scheme.

Audit observations and recommendations on encashment of vacation leave

2.29 Before the leave encashment scheme was implemented in August 1992, the Executive Director, VTC informed the Council members in July 1992 that the scheme would be run on a trial basis and that a review would be carried out in 1995. However, Audit noted that the VTC did not in fact treat the scheme as a trial scheme. The staff were asked to opt *irrevocably* to encash their vacation leave, or to continue to enjoy their existing leave entitlement. Furthermore, by failing to implement the scheme on a trial basis, the Executive Director, VTC had misinformed the Council members.

2.30 According to the relevant VTC Staff Circular, employees should normally take all vacation leave due to them before the beginning of a new tour of service of two years. Where operational requirements do not allow an employee to take all his leave, approval may be given for him to carry forward up to half of his vacation leave entitlement (i.e. 45 days for those staff who have opted for leave encashment for a normal tour of service of two years) to his following tour of service. Any vacation leave balance exceeding the permitted limit of 45 days remaining not taken at the end of a tour of service will lapse. In exceptional circumstances, approval may also be given for an employee to carry forward more than 45 days of vacation leave entitlement (accumulated in the present tour of service and from previous tours of service) to the next tour of service.

2.31 Based on the statistics of vacation leave compiled by the VTC in March 1998, Audit noted that, of the 144 non-teaching staff who had opted for leave encashment, 66 (46%) still could not exhaust their leave within the normal two-year tour of service. They had to carry forward their leave to the next tour. Table 2 below shows the number of days of leave carried forward by these staff.

Table 2
Number of days of leave
carried forward by non-teaching staff

	No. of staff
Less than 30 days	40
30 to 44 days	8
45 to 59 days	7
60 to 89 days	7
90 days and over	4
	—
Total	<u>66</u>

Source: VTC's records

2.32 The VTC gave approval to these 66 staff to carry forward their accumulated leave. In many cases, the staff were allowed to carry forward more than 45 days, notwithstanding that this should have been allowed only in exceptional circumstances.

2.33 Audit also notes that, despite the lack of a similar leave encashment scheme in the civil service and that the VTC's scheme involved additional government funding, the VTC had not sought approval from the Administration prior to implementing the scheme. It was only upon Audit's enquiry in January 1993 that the Administration took up the matter and gave the VTC its covering approval. The implementation of the scheme breached the Government's subvention principle that the terms and conditions of service of staff in subvented organisations should not be superior to those provided by the Government to comparable grades in the civil service.

2.34 **Audit has recommended that the Executive Director, VTC should:**

- **in seeking the Council's approval for changes in staff benefits, provide sufficient and accurate information to the Council so that the Council members can make informed decisions;**
- **tighten up the granting of approval for carrying forward of vacation leave to ensure that leave is only carried forward in accordance with the guidelines stated in the VTC Staff Circular; and**

- seek prior approval from the Administration before implementing any plan which might involve additional government funding.

Response from the VTC

2.35 The **Executive Director, VTC** has said that:

- the VTC accepts that it did not implement this scheme on a trial basis and should have pursued this. It should have obtained the necessary agreement for implementation of the scheme;
- the scheme was a stop-gap measure designed to resolve a particular staffing problem in 1992, which might only have been solved otherwise through the creation of expensive leave relief posts. At the time, it was the most cost-effective solution to the problem;
- the scheme was a “one-off” arrangement. The number of staff involved was small and is rapidly diminishing (currently 141), particularly when the redeployment of a number of these staff to different posts (which are ineligible for the scheme) takes effect in September 1999; and
- the VTC takes note of the audit comment that prior approval from the Administration must be sought before the implementation of any changes which might involve additional government funding.

All-in pay package

2.36 The remuneration structure of the VTC is largely based on that of the then Hong Kong Polytechnic and the civil service. The VTC’s staff are offered a basic salary plus other fringe benefits. Audit noted that in one case, the VTC had offered an all-in pay package to a staff member. This was not the normal remuneration arrangement for VTC staff.

2.37 In October 1998, the VTC recruited a senior staff member on two-year agreement terms. An all-in pay package of \$145,000 a month was offered, which was made up of a monthly basic salary of \$92,650 (equivalent to an officer at D1 of the Directorate Pay Scale of the civil service), and a monthly cash allowance in lieu of contract gratuity, housing benefits, medical, dental and hospitalisation benefits, education allowance for children and leave passage.

Audit observations and recommendations on all-in pay package

2.38 Audit considers that this all-in pay package was not appropriate for the following reasons:

- according to the VTC’s “General Principles and Detailed Arrangements for the Staff Quarters Project at Chai Wan Technical College”, the VTC will ensure that all the quarters are fully occupied before leasing additional quarters from the market to meet the VTC’s demand. Any vacancy period due to the change of occupants, etc. should be kept to an absolute minimum. Audit noted that in October 1998, there were 15 vacant staff quarters. (Use of VTC staff quarters is separately dealt with in PART 4 of this audit report.) Despite the fact that there were vacant quarters, the senior staff member was not required to live in the quarters. Instead, the housing benefits were encashed and paid as a monthly allowance to this staff member; and

- it is also stated explicitly in the VTC’s “Conditions of Service for the teaching and equivalent administrative staff employed by the Vocational Training Council” that contract gratuity is payable only upon the satisfactory completion of a contract. Therefore, the payment of contract gratuity in the form of a monthly cash allowance breaches the principle that contract gratuity is payable only upon the satisfactory completion of a contract.

2.39 **Audit has recommended that the Executive Director, VTC should, in renewing or offering remuneration package in the future:**

- **instead of encashing the housing benefits, always try to allocate staff quarters to eligible staff in order to make full use of VTC’s vacant quarters; and**

- **adhere to the principle that contract gratuity should only be paid upon the satisfactory completion of a contract.**

Response from the VTC

2.40 The **Executive Director, VTC** has said that there has only been one case of an all-in package, namely, the appointment of the Director of Marketing and Public Relations in December 1998. This was considered by the Council as a special case after advice was sought regarding the difficulties in recruiting a person of the right calibre to fill this vital position. The Council endorsed the all-in pay package in order to attract first class applicants having the necessary standing and expertise in marketing and public relations. In line with the audit comments, the VTC will review the position when the contract is due for renewal.

PART 3: PROCUREMENT OF GOODS AND SERVICES

3.1 This PART examines the financial management and tendering procedures for the procurement of goods and services.

Financial control on procurement of goods and services

3.2 The financial control and tendering procedures for the procurement of goods and services are set out in two internal documents of the VTC, namely, the Financial Rules and the Procurement Manual. The Financial Rules stipulate that all supply of stores, services or works estimated to cost more than \$5,000 shall, unless a restricted tender is approved by the Executive Director or his delegates, be procured by tendering, or from a minimum of five tenderers.

3.3 The Financial Rules also provide that goods and services may be acquired without tendering if it is impracticable to do so. In exercising the direct purchase authority (DPA) of stores or services, the financial limits are as follows:

Approving staff member	For one order not exceeding
	(\$)
Executive Director	300,000
Finance Officer	100,000
Chief Supplies Officer	50,000

The staff member who has authorised any direct purchase is required to “lay particulars of such expenditure before the Council within three months after it is incurred”. The Council may generally or specially authorise the making of any purchase or the obtaining of any service for the Council without recourse to tender.

Audit case studies on tendering

3.4 In 1998-99, the VTC spent about \$348 million for the procurement of goods and services. Audit examined 20 contract agreements signed in 1998 (with a total contract value of \$47.7 million) to see whether the financial control and tendering procedures laid down in the Financial Rules had been duly followed. Audit noted that there were anomalies in the following three cases:

- the appointment of consultants for the construction of an annex to the Shatin Campus;
- the award of contracts for security services for VTC buildings; and

- the advertising of VTC courses.

The audit observations on these cases are in paragraphs 3.5 to 3.13 below.

Appointment of consultants for the construction of an annex to the Shatin Campus

3.5 In April 1998, the VTC approached five architectural firms for the project of building a five-storey extension block at the IVE, Shatin Campus (previously known as the Shatin Technical Institute) to increase the student intake. All the five architectural firms expressed an interest in May 1998. The total cost of the project, including the consultancy fees, was estimated at \$75 million. Because the value of the consultancy services was estimated at \$7.5 million, the Executive Director had to seek the VTC Estates Committee's approval.

3.6 On 3 June 1998, the Estates Officer, in an internal memo to the Executive Director, considered that three architectural firms were suitable for consideration. He suggested that a decision be made on whether a firm recommendation be submitted to the VTC Estates Committee for approval, or whether the VTC Estates Committee be requested to choose from a short list. On 10 June 1998, one firm was recommended to the VTC Estates Committee as the project consultant. The reason for this recommendation was that the firm had undertaken work on a number of educational and institutional buildings, and the size and nature of the project was well suited to this small firm of about 20 staff. On 23 June 1998, the VTC Estates Committee approved the recommendation. The consultancy agreement was signed in October 1998.

3.7 Audit observes that the VTC did not conduct a tendering exercise to invite the three short-listed firms to submit proposals for the project. Without an evaluation of the relative merits of the proposals, the VTC would not have had an objective basis for selecting the suitable consultant for the project. Audit also noted that the consultancy fee was based on a scale of fees on the value of the project. This was not in line with the prevailing practice of remuneration for similar consultancy work, which was normally on a lump sum basis and subject to competitive bidding.

Award of contracts for security services for VTC buildings

3.8 The security services for all VTC buildings are contracted out, except for three VTC's Skills Centres. The security services for all the nine campuses, four training centre complexes and the VTC Tower are currently provided by one security services company (Company A) for a period of two years commencing April 1998 with a contract value of \$18.2 million. Audit notes that Company A has been providing the security services for most of the VTC buildings for over ten years since it was first appointed in November 1989. The security services contract has been renewed six times (in 1991, 1993, 1995, 1996, 1997 and 1998) since 1989.

3.9 In 1996, the security services for six (out of nine) campuses and three (out of four) training centre complexes were put out to open tender. The contract was awarded to another security services company (Company B) for a period of two years. Upon the expiry of the contract, the services were put out to open tender again in 1998. Company B submitted the lowest bid.

However, this bid was rejected because Company B's performance was considered unsatisfactory between 1996 and 1998. The two-year contract commencing April 1998 for \$9.3 million was again awarded to Company A which submitted the second lowest bid.

3.10 Meanwhile, Company A's security services contract for other VTC buildings (except for three Skills Centres) was renewed for another two years from April 1998 for \$8.9 million. Therefore, Company A is currently providing security services to all VTC buildings.

3.11 **Audit is concerned that the security services contract had been renewed for six times and most of the security services had not been put out to tender since November 1989.** In the 1998 tendering exercise, 15 tenderers submitted bids for the contract. This indicates that the competition for security services is very keen. Audit considers that it is unsatisfactory for the VTC to simply renew the existing contract with Company A, without going through a tender process. There is insufficient assurance that the VTC has obtained the best value for money on security services.

Advertising of VTC courses

3.12 In November 1998, the Director of Marketing and Public Relations proposed to advertise the courses offered by the VTC through the television media. The VTC's senior management agreed to this proposal. The Director acquired directly a package of advertising services from a television broadcasting company at the amount of \$320,000, despite the fact that the advertising services should have been procured by tender in accordance with the Financial Rules.

3.13 The Supplies Section, upon checking the case, questioned the lack of tendering. The Director of the Marketing and Public Relations explained that, being newly appointed, she was not familiar with the procurement procedures of the VTC. To rectify the anomaly, the VTC's senior management subsequently obtained a covering approval from the Council.

Audit recommendations on tendering

3.14 **Audit has recommended that the Executive Director, VTC should:**

- **take positive action to ensure that all goods and services are procured through open and competitive tenders;**
- **consider adopting a lump sum fee contract for the future tendering of consultancy services to enhance competition and financial control; and**

- regularly remind the staff, particularly newly appointed staff, of the need to follow the procurement procedures.

Response from the VTC

3.15 The **Executive Director, VTC** has said that the VTC notes the audit recommendations on tendering. He has also said that up to February 1999, it had been the practice of the tertiary institutions (funded by the University Grants Committee) to base the consultancy fee for a construction project on a scale relating to the value of the project. Hence remuneration based on a scale of fees was adopted in October 1998 when the appointment of the architectural consultant for the Shatin new wing was made (Note 5).

Response from the Administration

3.16 The **Director of Architectural Services** has said that:

- as the subvented organisations are not government departments, the Government has given them some flexibility in their operation. They had not been required to adhere to the government departments' lump sum comparative technical/fees proposals selection system. The Government reviewed the appointment system in February 1999 and recommended that the subvented organisations should also adopt the competitive selection system similar to that used by government departments. The Secretary for Education and Manpower had subsequently informed the VTC in March 1999 about the "fees bidding" system for new subvented projects; and
- the Architectural Services Department started using the competitive comparative selection system for government projects since 1994. The "Handbook on Selection, Appointment, and Administration of Architectural and Associated Consultants" was issued on 29 June 1994 as guidance for staff handling the appointment of consultants for in-house projects.

Procurement by direct purchase authority

3.17 The VTC, as mentioned in paragraph 3.3 above, allows direct purchase of stores or services in circumstances where it is impracticable to tender. The Financial Rules set out that for any single purchase exceeding \$5,000 where tendering exercise is waived, a minimum of five quotations should be obtained. However, the staff member who has been delegated the DPA can give approval to dispense with the requirement for obtaining five quotations.

Note 5: *Audit considers that the VTC should always follow best practices in the procurement of goods and services. As the best practice for the appointment of consultants at the time was through competitive fee bidding, the VTC should have adopted the lump sum fee bidding method (see paragraph 3.16).*

Audit case studies on DPA

3.18 In 1998-99, direct purchase of stores and services amounted to some \$14 million. Audit examined 125 cases of DPA approved from July to September 1998 to see whether the procurement procedures had been followed.

3.19 Audit noted that the procurement procedures had generally been followed. However, in 28 cases (or 23%), more quotations had not been obtained before the orders were placed with a single supplier. **Obtaining more quotations would have provided an assurance that the amount paid for the direct purchase was reasonable.** Three examples (of these 28 cases) are shown in paragraphs 3.20 to 3.27 below.

3.20 **Case one.** In August 1998, a DPA of \$295,000 was approved for the appointment of a geotechnical consultant for slope upgrading works at the IVE, Kwun Tong Campus (previously known as the Kwun Tong Technical Institute). Only one quotation was obtained as it was claimed that the consultant had advised and supervised all slope safety works, and had maintained all slope records of the VTC premises for the past ten years. Audit considers that quotations should have been obtained from other geotechnical engineering consultants.

3.21 In response to Audit's enquiries, the VTC has informed Audit that the appointed consultant was the one employed when the Kwun Tong Technical Institute was being constructed. Also, the same firm is the consultant of the Geotechnical Engineering Office carrying out slope stability investigations in the Kwun Tong area slopes, within the vicinity of the Institute. The firm had the past survey records and unparalleled experience about the site and the area. Other consultants would have had to acquire additional information which would have been costly.

3.22 **Case two.** The Kowloon Bay Training Centre Complex purchased a new lathe but it was later found that an existing wall had to be demolished to facilitate the installation. A new slide door also had to be installed. The supplier of the lathe recommended a contractor to carry out the demolition and installation works. On 11 June 1998, the contractor quoted a price of \$49,800. No other quotations were sought. Two and a half months later, on 4 September 1998, a DPA was approved because it was claimed that there was an urgent need to complete the works before 25 September 1998.

3.23 Audit noted that the need for the works was identified in June 1998. However, the works were to be completed by late September 1998. It appeared that there was sufficient time to obtain more quotations.

3.24 In response to Audit's enquiries, the VTC has informed Audit that the lathe supplier was prepared to undertake this work at a low cost as part of the installation. Consequently, it was considered unnecessary to seek quotations elsewhere.

3.25 **Case three.** In September 1998, a DPA for an amount of \$42,000 was approved for the engagement of staff of a local university to formulate proposals and guidelines for the implementation of the Continuing Professional Development Programmes. The appointment was made because it was claimed that the university staff providing the service had extensive experience in organising these programmes. No other quotations were sought.

3.26 In response to Audit's enquiries, the VTC has informed Audit that this type of consultancy requires expertise at a level such that a fee of, say, \$1,200 per hour would be appropriate. At the outset, VTC senior management was aware that the in-depth study would require at least 50 hours of consultancy work. Indeed, the amount of work exceeded the amount of time originally anticipated. Consequently, the payment of \$42,000, being less than the usual consultancy fee, could be considered more like an "honorarium".

3.27 Audit considers that in the above three cases, more quotations should have been sought. This would have provided an assurance that the amounts paid for the goods and services were indeed reasonable.

Audit recommendations on DPA

3.28 **Audit has recommended that the Executive Director, VTC should:**

- **issue instructions to purchasing staff reminding them of the requirement to obtain a minimum of five quotations for the direct purchase of stores or services exceeding \$5,000; and**
- **ensure that the staff concerned exercise the authority to waive the requirement of obtaining five quotations only in exceptional circumstances where it is impracticable to do so.**

Response from the VTC

3.29 The **Executive Director, VTC** has accepted the audit recommendations.

PART 4: BUILDING AND USE OF SENIOR STAFF QUARTERS

4.1 This PART deals with the building and management of senior staff quarters, and the progress of introducing a Home Financing Scheme in the VTC.

Housing benefits provided by the VTC

4.2 Eligible staff of the VTC are provided with housing benefits which are modelled on the pre-October 1990 civil service housing benefits (Note 6). These benefits consist mainly of the following:

- *Senior Staff quarters.* The staff on VTC Scale B Salary Point 45 (Note 7) and above are eligible for senior staff quarters (hereinafter referred to as quarters); and
- *Private Tenancy Allowance (PTA).* A monthly allowance is payable to the staff on VTC Scale B Salary Point 34 or above who rent private properties.

4.3 In 1998-99, PTA paid to VTC staff amounted to \$118 million. As at 30 June 1999, the VTC had 100 quarters with sizes ranging from 150 to 190 square metres (saleable areas). The total notional rent of these quarters is estimated at \$47 million a year.

Building of quarters

4.4 Building of the 100 quarters owned by the VTC was completed in June 1996. Prior to June 1996, the VTC rented private properties to accommodate the staff who were eligible for quarters. However, the rentals had sometimes far exceeded the amounts that the VTC was prepared to pay. In September 1993, the VTC proposed to build 100 quarters within the campus of the then Chai Wan Technical College (CWTC), now known as the IVE, Chai Wan Campus, as a long-term solution.

Note 6: *With effect from October 1990, the Government implemented a Home Financing Scheme for the civil service. So far, a similar scheme has not been implemented for the VTC.*

Note 7: *Equivalent to Master Pay Scale Point 45 of the civil service.*

Proposal to build quarters

4.5 According to a consulting architect's feasibility study in 1993, the cost of building 100 flats together with the required amenities would cost \$170 million at mid-1994 prices. The main features of the project were:

- the flats would be located within the CWTC site;
- each flat would have a net area of about 167 square metres;
- 100 carparks would be provided; and
- other amenities would include a children's playground and a small swimming pool.

4.6 The VTC would arrange for a bank loan to finance the project. Once the VTC's eligible staff started to live in the quarters, the Government would pay to the VTC rental values of the quarters (to be assessed by the Rating and Valuation Department) so occupied on a quarterly basis. Government's payments would continue until the VTC paid off the bank loan.

4.7 In September 1993, the Council approved the project at \$170 million. In November 1993, the VTC obtained policy support and approval for the bank loan arrangement from the Administration. The VTC undertook that, in an administrative arrangement (Note 8) with the Government, the design of the quarters would be comparable to that being applied to quarters of civil servants of equivalent ranks.

Increase in project estimate

4.8 In May 1994, the VTC Estates Committee approved the revised project estimate which was increased by \$85 million to \$255 million (Note 9). A breakdown of the estimated project cost overrun, showing the causes, is shown in Table 3 below.

Note 8: *The administrative arrangement is known as the "General Principles and Detailed Arrangements for the Staff Quarters Project at Chai Wan Technical College".*

Note 9: *The quarters were completed in June 1996 at a final cost of \$238 million. The cost increase was \$68 million (\$238 million less \$170 million). The increase also resulted in an additional interest expense of about \$15 million because the project was financed by a bank loan.*

Table 3

Breakdown and causes of the estimated project cost overrun

	(\$ million)
Construction cost	42
<ul style="list-style-type: none"> · <i>Additional amenities.</i> These included a squash court and a gymnasium. These were in addition to the children’s play area and the residents’ swimming pool already included in the original estimate; • <i>Noise mitigation measures.</i> Installation of double-glazed windows and an extension of the walls of the building to alleviate the noise from a nearby Mass Transit Railway Station and traffic from the Eastern Corridor to satisfy the requirements of the Environmental Protection Department; • <i>Revision of flat sizes.</i> This was carried out to suit different family sizes and ranking, resulting in an increase in the estimated construction costs; • <i>Better finishes and fittings.</i> Better quality flooring and fittings were used. Examples were the upgrading of parquet-flooring to pre-finished solid beechwood flooring, and the provisioning of separate shower cubicles in addition to bathtubs within the en suite bathrooms; and • <i>Hot rooms.</i> A hot room for storing residents’ winter clothing was included. Water heaters were installed in these rooms to keep the clothing warm and dry, and to supply hot water to the flat. 	
Contingencies	11
Allowance for fluctuations in price	23
Increase in the consultants’ fee as a result of increased construction costs	9
Cost overrun	<u><u>85</u></u>

Source: VTC’s records

4.9 In response to Audit's enquiries, the VTC has said that it was not necessary to obtain formal approval of the project costs from the Administration. It did not seek additional funds from the Administration because the project was being financed from a bank loan. Notwithstanding this, both the Government and the VTC were conscious of the need for close liaison on a project of this kind in case it impinged on aspects of the Government's policy, or might affect funding, or the use of public funds. Consequently, a representative of the Architectural Services Department attended the relevant VTC Estates Committee meetings to provide advice and liaison with the Administration.

Audit observations and recommendations on the increase in project estimate

4.10 **Audit considers that the increase in project cost would increase public expenditure. This is because the Government would pay to the VTC rental values of the quarters occupied by eligible staff until the bank loan is fully repaid by the VTC. The increase in project cost had the effect of lengthening the loan repayment period by about two years to six years. Audit considers that the VTC should have sought approval from the Secretary for Education and Manpower when the project estimate was increased by \$85 million. The representative of the Architectural Services Department mainly played an advisory role on architectural technical issues and did not have the authority to approve a revision to the project estimate.**

4.11 **Audit has *recommended* that in future building projects, the Executive Director, VTC should:**

- **avoid making major changes to the original design which will lead to significant increases in project cost; and**
- **seek approval from the Administration for significant changes in project cost, which will result in an increase in public expenditure.**

Response from the VTC

4.12 The **Executive Director, VTC** has said that the VTC notes the audit observations and recommendations on the increase in project estimate.

Response from the Administration

4.13 The **Director of Architectural Services** has said that he agrees with the audit observation in paragraph 4.10 that the representative of the Architectural Services Department, as a member of the VTC Estates Committee, played a technical advisory role only on the construction of the VTC staff quarters, and the approval of any revised financial commitment should have been sought in advance by the VTC from the Government.

Reprovisioning of swimming pool

4.14 A major works item in the staff quarter project was the reprovisioning of a swimming pool in the CWTC, which cost some \$11 million.

4.15 In order not to wait for the Government to grant additional land for building the quarters, in 1993 the VTC proposed the quarters be built within the CWTC campus. As there was no more available land in the campus at that time, the VTC had to demolish an existing swimming pool in the CWTC so as to make available sufficient land to build the quarters.

4.16 The VTC converted part of the CWTC's swimming pool into a smaller pool for use by the quarters' residents, and demolished the remaining part of the pool so as to provide land for building the quarters. Since the VTC also intended to maintain the same level of student amenities, the VTC built a replacement swimming pool at another location in the CWTC campus.

Utilisation of replacement swimming pool

4.17 The replacement swimming pool is a standard-sized pool of 50 by 22 metres. It is open daily in two sessions from April to November. Each session lasts for about four and a half hours.

4.18 The utilisation of the swimming pool has been low. According to the latest survey conducted by the VTC for the 1996-97 academic year, on average there were only four to five students using the swimming pool during a session. Taking into account VTC staff and guests who used the pool, in the 1996-97 academic year the average number of users ranged from 8 to 15 a day.

4.19 In April 1999, the VTC informed Audit that the utilisation of the pool had still been low.

Audit observations and recommendations on reprovisioning of swimming pool

4.20 Audit noted that apart from the CWTC swimming pool, the VTC had another swimming pool in the IVE, Tsing Yi Campus. According to a VTC's survey, in the academic year 1996-97, the utilisation of the pool in the Tsing Yi campus was also as low as that of the CWTC. The under-utilisation of the swimming pools is unsatisfactory.

4.21 Audit also noted that the VTC had not performed any utilisation survey prior to the construction of the replacement swimming pool in the CWTC. If an utilisation survey had been conducted on the old pool in the CWTC, the results of the survey would have indicated that the utilisation would be low. Therefore, it might not have been necessary to build a replacement pool of 50 by 22 metres. The construction cost of this replacement pool amounted to \$11 million. A smaller replacement pool would have required lower capital and maintenance costs.

4.22 **Audit has recommended that the Executive Director, VTC should:**

- **take positive action to increase the utilisation of the swimming pools in the IVE, Chai Wan and Tsing Yi Campuses (e.g. by inviting other schools to use the pools); and**
- **before making capital works decisions in future, take into account the utilisation rate, having regard to the experience of building the replacement swimming pool in the IVE, Chai Wan Campus.**

Response from the VTC

4.23 The **Executive Director, VTC** has accepted the audit recommendations. He has also said that the utilisation of the swimming pools in 1998-99 was significantly higher than that of the previous year.

Vacant quarters

4.24 As mentioned in paragraph 4.4 above, the VTC completed the construction of 100 staff quarters in June 1996 for occupancy by eligible staff. Table 4 below shows the utilisation of the quarters as at 30 June 1999.

Table 4

Utilisation of the 100 quarters as at 30 June 1999

Position	Number of quarters	Percentage
Occupied by:		
eligible staff	61	61%
ineligible staff	24	24%
Vacant	15	15%
	<u>100</u>	<u>100%</u>

Source: VTC's records

Quarters occupied by ineligible staff

4.25 Since August 1997, the VTC had allowed ineligible staff to occupy quarters. The reasons for this are given in paragraphs 4.26 to 4.29 below.

Reasons for quarters occupied by ineligible staff

4.26 In May 1996, the VTC introduced common terms of service to both its local and overseas employees. Under the common terms of service, overseas staff, whose salaries were below the salary point eligible for quarters, were no longer entitled to quarters.

4.27 Meanwhile, in June 1996, when the construction of the quarters was completed, the VTC directed 92 employees to move into these quarters, leaving eight quarters vacant. Of these 92 employees, 25 were overseas staff whose salary points did not entitle them to quarters. However, quarters were assigned to them by virtue of their overseas terms of employment under their existing employment contracts with the VTC.

4.28 These 25 overseas staff were not eligible for quarters upon renewal of their employment contracts. They vacated the quarters by September 1997. There were no more eligible staff to occupy the quarters thus vacated.

4.29 To deal with these 25 quarters, and the eight quarters which had been vacant since June 1996, in August 1997 the VTC started to lease the quarters to staff who were ineligible for quarters but who were receiving PTA. These staff were considered as “licencees” and the rentals collected were regarded as “licence fees”.

Few PTA recipients prefer to live in quarters

4.30 The licence fees paid by the licencees were set at about 20% below the market rental values. The VTC considered that this could induce more ineligible staff to move into the vacant quarters. The VTC also considered that the lower rental was required as only a short lease of one year was offered to licencees. This was to ensure that the VTC would be able to regain possession of quarters promptly from the licencees.

4.31 Despite the fact that the licence fees were cheaper than the market rental values, only a few staff were interested in these quarters. Table 5 below shows the results of the letting exercises carried out by the VTC in 1998.

Table 5

Results of letting exercises in 1998

	January	June	December
(a) Number of PTA recipients invited to apply for quarters	416	428	438
(b) Number of applications received	7	3	3
(c) Percentage (c) = (b)/(a) × 100%	1.7%	0.7%	0.7%

Source: VTC's records

4.32 Only a very small number of staff rented the quarters because the PTA received by them was insufficient to cover the licence fees. On average, each licensee had to pay an extra \$10,700.

4.33 As a result, the utilisation of the quarters has remained unsatisfactory. As at 30 June 1999, there were still 15 vacant quarters (see Table 4 in paragraph 4.24 above). Six of these 15 quarters had been vacant for more than 18 months.

Audit observations and recommendations on vacant quarters

4.34 As can be seen from Table 4 in paragraph 4.24, only 61% of the quarters was occupied by eligible staff. This is far below the original estimate of near full occupancy. Letting out these quarters to ineligible staff has not improved significantly the vacancy situation.

4.35 As at 30 June 1999, there were still 15 vacant quarters. The notional rents for the vacant period (up to June 1999) of these quarters are estimated to be about \$10 million.

4.36 In response to Audit's enquiries, the VTC has informed Audit that the idea of letting vacant quarters to the public was discussed at the VTC Administration Committee meeting in April 1997. It was concluded that, owing to the restrictions imposed by the private treaty grant between the Government and the VTC, there would be considerable complications associated with the letting of these flats on the open market. The VTC Administration Committee decided at that time that the flats should only be let to VTC staff.

4.37 Audit notes that under Clause 5(l) of the General Principles and Detailed Arrangements agreed between the VTC and the Secretary for Education and Manpower for the project, the VTC could submit an application to the Government for the disposal of any surplus quarters.

4.38 **Audit has recommended that the Executive Director, VTC should take positive action to deal with the problem of surplus quarters. The Executive Director should:**

- assess the future demand for quarters by eligible staff, having regard to the large number of quarters which are vacant or being occupied by ineligible staff; and
- submit an application to the Government for dealing with any surplus quarters (e.g. letting/selling the surplus quarters in the open market).

Response from the VTC

4.39 The Executive Director, VTC has said that he will take action regarding the audit recommendations.

Home Financing Scheme

4.40 In October 1990, with the approval of the Finance Committee of the Legislative Council, the Government made available to civil servants a Home Financing Scheme (HFS):

- to encourage home ownership;
- to make effective use of available resources; and
- to reduce the Government's long-term expenditure on the provision of PTA and quarters.

4.41 Under the HFS, a participant is eligible for a monthly allowance, at a specific rate, for a maximum of ten years to acquire a residential property in Hong Kong. In addition, officers confirmed to the permanent establishment may apply for a loan, at a concessionary interest rate, to meet the downpayment for the purchase of the property. On joining the HFS, an officer irrevocably relinquishes his eligibility for all other civil service housing benefits. As the HFS was introduced on 1 October 1990, officers appointed before and after the effective date are treated differently, as follows:

- *Officers appointed before 1 October 1990.* Both local and overseas officers may choose either to join the HFS or retain their civil service housing benefits when they reach Master Pay Scale Point 34 before an option deadline. If they choose to join the HFS after the option deadline, their entitlement period under the HFS will be reduced; and
- *Officers appointed on or after 1 October 1990.* The HFS is a condition of service and the only form of housing benefit for local officers whose salaries are on or above Master Pay Scale Point 34. For overseas officers, they are eligible for an accommodation allowance for renting accommodation in Hong Kong while in government employment.

4.42 The HFS has been a success in the civil service. In October 1994, the Administration submitted a paper to the Finance Committee of the Legislative Council to seek approval for increases in the HFS allowance. This paper stated that, up to that time, over 6,800 officers had joined the HFS, which would result in an estimated net saving of \$15,400 million (at the 1994 price level) over a 20-year period. This was due to the fact that the allowance under the HFS was payable for a maximum period of ten years, whereas eligible officers might receive PTA or live in quarters throughout their employment with the Government.

Proposal to introduce the HFS for the UGC-funded institutions

4.43 In 1997, Audit conducted a review on the home financing and use of senior staff quarters in the institutions funded by the University Grants Committee (hereinafter referred to as the institutions). Audit considered that the implementation of an HFS similar to that of the civil service for the institutions would be mutually beneficial to the staff of the institutions and to the Government. It would assist those staff of the institutions who aspire to home ownership. The Government would also benefit because it would produce substantial savings in government subvention in the long term.

4.44 Accordingly, Audit urged the Administration to introduce a similar HFS for the institutions. In October 1998, with the approval of the Executive Council and the Legislative Council, an HFS similar to the one in the civil service, but without the downpayment loan, was implemented for the institutions. In September 1998, the Administration submitted a paper to the Finance Committee of the Legislative Council to seek approval for funding for the HFS for the institutions. The paper stated that the HFS would result in an estimated net saving of \$5,597 million over a 15-year period.

Implementation of the HFS for the VTC

4.45 Following the implementation of the HFS for the institutions, in November 1998, the Education and Manpower Bureau informed the VTC that the Finance Bureau was prepared to

consider introducing an HFS for the VTC, broadly akin to that for the institutions. Also in November 1998, the Finance Bureau started to collect from the VTC relevant information for assessing the viability and financial implications of implementing an HFS for the VTC. In the same month, in response to a question of the Finance Bureau on the estimated number of eligible staff that would join the HFS if such a scheme was implemented, the VTC expected that most of its eligible staff would opt for the HFS.

4.46 Meanwhile, the Finance Bureau is conducting an assessment on the viability and financial implications of implementing the HFS for the VTC. There is still no clear indication as to whether the HFS would be implemented for the VTC.

Audit observations and recommendations on the implementation of the HFS for the VTC

4.47 The implementation of the HFS for the civil service and educational institutions has been successful. The scheme is likely to be mutually beneficial to the Government in reducing the expenditure on housing benefits and to VTC's staff who aspire to home ownership.

4.48 **Audit has recommended that the Administration should:**

- **complete as soon as possible the examination of the viability and financial implications of implementing an HFS for the VTC; and**
- **if it is concluded that such a scheme is viable, take prompt action to implement the HFS for the VTC.**

Response from the VTC

4.49 The **Executive Director, VTC** has said that the VTC has urged Government to resolve an HFS for the VTC.

Response from the Administration

4.50 The **Secretary for the Treasury** has said that the introduction of an HFS in the civil service and in the UGC-funded institutions is financially attractive to the Government mainly because of the long-term savings in housing benefits that the scheme offers. The availability of a considerable number of surplus quarters in these institutions, which may be rented or sold to generate income to the Government, contributes significantly to the financial viability of the proposal. However, in the case of the VTC, the situation is somewhat complicated by financing the building of 100 quarters through a bank loan and the agreement that the Government's contribution could cease upon full repayment of the bank loan by the VTC. Nonetheless, the Finance Bureau is still prepared to consider whether a financial case exists, particularly with the benefit of the current UGC experience which is more recent and relevant.

PART 5: FRAMEWORK AGREEMENT AND PERFORMANCE INDICATORS

5.1 This PART examines the formulation of a framework agreement between the VTC and the Government. The adequacy of performance indicators is also reviewed.

Existing framework

5.2 The purpose of a framework agreement is to set out clearly the duties of the VTC, the Government's policy on vocational training, the relationship between the Government and the VTC, and their accountability to the public. At present, there are two sets of framework governing the operation of the VTC and its working relationship with the Government.

The Vocational Training Council Ordinance

5.3 The VTC Ordinance (Cap. 1130), which was enacted in 1982, provides the legal framework governing the establishment, functions and management of the VTC.

5.4 While the VTC Ordinance empowers the VTC to receive government funding and to do all things necessary for achieving the VTC's objects, it does not spell out the administrative arrangements between the VTC and the Government.

Memorandum of Administrative Arrangements

5.5 In September 1982, to amplify the provisions of the VTC Ordinance, the Administration set out a Memorandum of Administrative Arrangements (MAA) with the VTC. The MAA stated, in broad terms, arrangements in respect of:

- the payment of grants to the VTC;
- the provision of government services to the VTC; and
- the grants of land to the VTC.

5.6 The MAA was in an abridged format. As the then Executive Director, VTC was also the Director of the Technical Education and Industrial Training Department (TEITD) (Note 10), the Administration considered that the incumbent officer, with his knowledge and experience in both the Government and the VTC, was in a position to manage the activities of the VTC in accordance with the established civil service regulations and practices. Therefore the MAA was drafted in an abridged format.

The need for a detailed framework agreement

5.7 However, in August 1991, the TEITD was reorganised. Because the post of the Director of the TEITD (who also assumed the duties of the Executive Director, VTC) was abolished (Note 11), the post of Executive Director, VTC had since been taken up by non-civil servants. As a result, there was no senior civil servant who has day-to-day knowledge of the VTC's activities. This being the case, the Administration considered that the abridged MAA was no longer adequate.

The draft framework agreement

5.8 In May 1993, eleven years after the MAA was set out, the Secretary for Education and Manpower, as the Controlling Officer of the subvention to the VTC, sent a draft framework agreement to the VTC for consideration. The agreement aimed to amplify the statutory provisions of the VTC Ordinance. It also defined the relationship between the Secretary for Education and Manpower (on behalf of the Government) and the VTC, and clarified the responsibilities of each party, in the planning and delivery of services in the vocational training programme.

5.9 The draft framework agreement elaborated on the following areas:

- (a) roles and responsibilities of the Secretary for Education and Manpower and the VTC;
- (b) aims of the VTC;
- (c) services provided by the VTC;

Note 10: *The TEITD was a department with the functions of vocational training for the disabled and administration of the apprenticeship scheme.*

Note 11: *Following the reorganisation of the TEITD in 1991, the post of the Director of the TEITD was abolished. The Director of Education assumed also the duties of the Director of the TEITD. The TEITD's functions were transferred to the VTC. The TEITD then became a government department responsible for the personnel management of the civil servants transferred from the TEITD to work in the VTC. In April 1999, the TEITD was abolished and its personnel management function was taken over by the Education Department.*

- (d) organisation, staffing and management of the VTC;
- (e) annual planning; and
- (f) managing resources.

5.10 Having considered the draft framework agreement, in August 1993, the VTC returned a revised draft to the Secretary for Education and Manpower for his consideration.

5.11 In 1996, the consultant, appointed to conduct a strategic and organisational review of the VTC, urged the drawing up of a framework agreement between the VTC and the Secretary for Education and Manpower. The consultant believed that such an agreement would clarify the roles of the Government and the VTC and would enable the Secretary for Education and Manpower to monitor the effectiveness of the VTC in a more professional and systematic way. It was also considered that such a formal agreement would be helpful, particularly given the frequent staff changes at senior government levels.

Audit observations on the framework agreement

5.12 Audit noted that by June 1999 (time of audit completion), a framework agreement between the VTC and the Government had still not been finalised.

5.13 In the absence of a formal framework agreement between the VTC and the Government, it is not entirely clear under what circumstances the VTC has to seek authority from the Government for changes in terms of service for its staff. Audit observes that the draft framework agreement of 1993 (see paragraph 5.8 above) sets out the circumstances under which the VTC would be required to seek the approval of the Government.

Performance indicators

5.14 In order to provide a linkage between the goals and duties outlined in the framework agreement and the actual delivery of services, it is important to have adequate key performance indicators to measure the progress and achievement. Audit notes that there is a lack of adequate key performance indicators which are agreed between the VTC and the Government to measure the results of providing the vocational education and training services. Audit also observes that, while the number of in-take of students for the full-time and part-time vocational education are shown in the Annual Estimates, output performance indicators (e.g. completion rate, drop-out rate and examination pass rate) on vocational education are not. Moreover, there is a lack of outcome

performance indicators to measure the extent to which the vocational education and training services have met the needs and demands of society.

5.15 Audit considers it important to set key output and outcome performance indicators as yardsticks for planning and monitoring the progress of the services provided by the VTC. These performance indicators will serve as an important linkage between the goals outlined in the financial agreement and the delivery of services. Inclusion of these indicators in the Annual Estimates will assist the stakeholders to assess the performance of the VTC in meeting its goals.

Audit recommendations

5.16 Audit has *recommended* that the Secretary for Education and Manpower and the Executive Director, VTC should:

- expedite action to finalise the framework agreement;**
- agree on suitable output and outcome performance indicators for planning and measuring the outcome of vocational education and training services for which the VTC is responsible; and**
- promulgate key performance indicators in the Annual Estimates for the information of the stakeholders.**

Response from the VTC

5.17 The Executive Director, VTC has said that:

- the VTC concurs with the audit comments about the need for an appropriate “framework agreement”, that is, an MAA. This is currently under preparation with the Education and Manpower Bureau;**
- owing to the volume and the timing of receiving the data, only key output performance indicators are presented in the VTC Annual Estimates; and**
- it is anticipated that other key indicators may emerge as a result of the establishment of an appropriate MAA.**

Response from the Administration

5.18 The **Secretary for Education and Manpower** has said that:

- in consultation with the Finance Bureau, the Education and Manpower Bureau is discussing with the VTC a draft MAA. The MAA will set out the relationship between the Government and the VTC, including the financial arrangement and the aims of and services provided by the VTC; and

- he intends to explore with the VTC the feasibility of identifying adequate output and outcome performance indicators for planning and measuring the progress of the vocational education and training services provided by the VTC and to follow up on the proposal to promulgate key performance indicators in the Annual Estimates.

5.19 The **Secretary for the Treasury** has said that she agrees with Audit about the need for a more elaborate MAA. In consultation with the Secretary for Education and Manpower, the Finance Bureau is making good progress in the liaison with the VTC on a more flexible funding arrangement which would assist the organisation in delivering its services in a more cost-effective manner. She envisages that the funding arrangement, alongside other details on the relationship between the Administration and the VTC, will be reflected in a revised MAA to be agreed upon within the current financial year. In the course of such discussion, she has placed emphasis on developing adequate performance indicators to relate the VTC's goals and duties with actual service delivery. She expects such performance/output evaluation to form part of the revised MAA mentioned above. She also welcomes promulgation of performance indicators in the Annual Estimates as recommended by Audit.

Appendix

Acronyms and abbreviations

CWTC	Chai Wan Technical College
DPA	Direct purchase authority
HFS	Home Financing Scheme
IVE	Institute of Vocational Education
MAA	Memorandum of Administrative Arrangements
PTA	Private Tenancy Allowance
SLS	Staff Loan Scheme
TEITD	Technical Education and Industrial Training Department
VTC	Vocational Training Council