

CHAPTER 9

**THE GOVERNMENT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION**

GENERAL REVENUE ACCOUNT

GOVERNMENT DEPARTMENT

University Grants Committee Secretariat

**University Grants Committee funded institutions —
General administrative services**

**Audit Commission
Hong Kong
31 March 2003**

UNIVERSITY GRANTS COMMITTEE FUNDED INSTITUTIONS — GENERAL ADMINISTRATIVE SERVICES

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UNIVERSITY GRANTS COMMITTEE FUNDED INSTITUTIONS — GENERAL ADMINISTRATIVE SERVICES

Summary and key findings

Introduction

A. The University Grants Committee (UGC) is a non-statutory advisory committee responsible for advising the Government on the development and funding needs of tertiary institutions in Hong Kong. The UGC is supported by a secretariat which is headed by its Secretary-General. The Secretary-General is the Controlling Officer who accounts for the expenditure of the UGC, including grants made to the higher-education institutions. In 2002-03, the approved budget for tertiary education amounted to \$13.5 billion, which represented 28% of the total government expenditure on education and 5% of the total government expenditure. There are eight higher-education institutions which receive government grants through the UGC, namely City University of Hong Kong (CityU), Hong Kong Baptist University (HKBU), Lingnan University (LU), The Chinese University of Hong Kong (CUHK), The Hong Kong Institute of Education (HKIEd), The Hong Kong Polytechnic University (PolyU), The Hong Kong University of Science and Technology (HKUST) and The University of Hong Kong (HKU) (paras. 1.2 to 1.5).

Audit review

B. Audit has recently conducted a value for money audit on the UGC-funded institutions. The audit covered three major areas namely: (a) the governance, strategic planning and financial and performance reporting; (b) the general administrative services; and (c) the staff remuneration packages and stipends. This report deals with the general administrative services of the UGC-funded institutions. The objective of this audit review is to examine the systems and arrangements in the institutions for ensuring that cost-effective administrative support is being provided (paras. 1.9 to 1.12).

C. In this report, Audit has identified some areas where improvements need to be made, i.e. in the provision of quarters and students hostels, energy management, outsourcing of institutions' services and role of purchasing offices in the institutions. These are described in paragraphs D to S below.

Provision of senior staff quarters

D. *Vacant senior staff quarters (SSQ) at the institutions.* Audit's analysis of the position of the SSQ as at 31 October 2002 indicated that, of the 1,494 SSQ held by seven institutions (except LU which had no SSQ), 128 or 8.6% of the SSQ were vacant. Audit's further analysis revealed that 25 (20%) of these 128 vacant SSQ had been vacant for over one year. These 25 vacant SSQ could produce a rental income of \$7 million a year. SSQ are valuable assets. Audit considers that there is a need for the institutions concerned to take more proactive actions to make effective use of these quarters (paras. 2.11 to 2.13).

E. ***Need to partner with private sector in order to lease out vacant SSQ more efficiently.*** With a diminishing number of eligible staff, the number of surplus SSQ will increase, thus giving rise to more vacant SSQ in future. There will be an increasing need to lease out the surplus SSQ in the open market. Not being active players in the property market, the institutions are not well equipped for this task. Audit considers that there is a need for six institutions (i.e. except LU and HKU) to partner with property agents in the private sector which are in a much better position to assess the changing needs of the market (para. 2.14).

F. ***Need to direct eligible PolyU staff to take up vacant SSQ.*** In the PolyU, despite the fact that there were 18 vacant SSQ, 15 staff who were eligible for SSQ were paid Private Tenancy Allowance (PTA) to rent their own accommodation. Audit estimated that if these 15 staff had taken up the vacant SSQ, the payment of PTA of \$4 million a year could have been saved. Audit considers that there is a need for the PolyU to direct eligible staff to take up the vacant SSQ, instead of paying them PTA to rent their own accommodation (para. 2.15).

G. ***Rent charging practices resulting in additional housing benefits for PTA/Home Financing Allowance (HFA) staff occupying SSQ.*** It was the Government's subvention policy that the terms and conditions of service of staff in subvented organisations, including the institutions, should not be superior to those provided by the Government to comparable grades in the civil service. PTA/HFA staff in the civil service are not provided with SSQ. Like other members of the public, they may lease the Government's surplus quarters in the open market by paying market rents. As a measure to improve the occupancy rate of the SSQ, the institutions lease out some of their SSQ to the PTA/HFA staff by paying them PTA/HFA and collecting such allowances from them as the rental charge. In many cases, the market rents of the SSQ are higher than the PTA/HFA entitlements of these staff. Under the circumstances, some institutions required their staff to pay to the institutions an extra amount equal to the difference between the market rents of the SSQ being occupied and the staff's PTA/HFA entitlements (i.e. a top-up requirement). For the other institutions, there was no such a top-up requirement. Audit noted that, as at 31 October 2002, there were 156 such staff who were not required to pay the extra amount. These staff were, in effect, given housing benefits in excess of their entitlements. Audit estimated that the additional housing benefits of these staff could amount to \$13 million a year. Audit considers that there is a need for the institutions (i.e. HKBU, CUHK, PolyU and HKUST) which do not have a top-up requirement to implement such a requirement (paras. 2.20 to 2.23).

H. ***Allocation of SSQ for operational reasons.*** As at 31 October 2002, four institutions (i.e. HKIEd, HKUST, CityU and HKU) allocated eight SSQ to staff for operational reasons, without requiring them to pay market rent. Audit estimated that the market rents of the eight SSQ could amount to \$2.5 million a year. In view of the substantial costs involved, Audit considers that there is a need for the institutions concerned to critically review the justifications for using these SSQ for operational purposes, particularly in cases where SSQ had been allocated for warden purposes (paras. 2.29 to 2.31).

I. ***Staff occupying operational quarters not required to pay rent.*** In the civil service, officers required to live in quarters for operational reasons are normally required to pay rent at 7.5% or 5% of their salaries to the Government. There are exceptional circumstances under which an officer directed to occupy quarters for operational reasons is not required to pay rent, for example, if he is not permitted to have his family in residence and is thereby obliged to maintain separate

establishments. Audit noted that four staff in three institutions (i.e. HKIEd, HKUST and HKU) were allocated SSQ for warden purposes and were not required to pay rent. There was no documentary evidence to indicate that their cases would fall into the circumstances under which an officer directed to occupy quarters for operational reasons is not required to pay rent. By providing quarters rent-free to them, the Government's subvention policy might have been breached. Audit considers that there is a need for the institutions concerned to critically review those cases and, where appropriate, require the staff concerned to pay an appropriate rent (paras. 2.35 and 2.36).

Provision of junior staff quarters

J. ***Operational need for junior staff quarters (JSQ).*** Six of the eight institutions provide a total of 447 JSQ, with sizes ranging from 15 to 54 square metres, to their staff on operational grounds. Under their conditions of service, junior staff of the institutions are not entitled to quarters as a housing benefit. JSQ are intended for operational purposes. The following audit findings call into question the need to provide JSQ for operational reasons: (a) not every institution provides JSQ; (b) according to an internal review by the HKU in 1999, a vast majority of the occupants of JSQ were no longer required to perform emergency duties or work at unsociable hours and therefore the JSQ would be phased out gradually by natural attrition; (c) 24-hour security services are now provided on campus either by outside contractors or by in-house security guards; and (d) there was little documentary evidence to justify the operational need for JSQ. Audit estimated that the 447 JSQ could produce a market rent of \$23 million a year. Audit considers that there is a need for the institutions concerned to critically review the justifications for providing these JSQ for operational reasons (paras. 3.2 to 3.4).

Provision of guest quarters

K. ***High vacancy rates of guest quarters (GQ).*** GQ are used to provide accommodation for institutional guests, visiting scholars, research personnel and exchange students from overseas or Mainland China. As at 31 October 2002, the eight institutions had a total of 381 GQ with sizes ranging from 10 to 178 square metres. Audit's analysis of the vacancy position of the GQ revealed that the average vacancy rates of the GQ were generally high, which ranged from 63% at the LU to 20% at CityU. Other institutions also had high vacancy rates: the HKIEd (62%), the HKUST (52%) and the CUHK (45%). On the assumption that the overall vacancy rate could be reduced to the same as that of CityU which had the lowest vacancy rate of 20%, Audit estimated that the additional rental income from the GQ could amount to \$12 million a year. Audit considers that there is much scope for improvement in the utilisation of the GQ (paras. 4.2 to 4.6).

Student hostels

L. ***Vacant hostel places in some institutions.*** In December 1996, the Government promulgated a new policy on the provision of publicly-funded student hostel places which represented the Government's efforts to enhance the quality of university education by fostering hostel life which would sharpen students' communication skills, nurture their leadership quality, encourage independent thinking and promote participation in community affairs. As at 31 October 2002, of the 21,697 available hostel places, 1,821 (or 8.4%) were vacant. Audit estimated that the total loss of hostel fees of these vacant places could amount to \$2.2 million per month. As at 31 October 2002, among the eight institutions, five institutions had more than 100 vacant hostel places each. These institutions were the PolyU which had 1,092 vacant places; the HKBU, 283; the CUHK, 171; the HKIEd, 122;

and the HKU, 110. Student hostel places are valuable assets. For example, the construction cost of the vacant hostel places was \$211 million and \$48 million for the PolyU and the HKBU respectively. In addition to the construction cost, there is the opportunity cost of the land on which the hostels were built. The investment in building student hostels reflects the Government's efforts to enhance the quality of university education by fostering hostel life. Audit considers that a high level of vacant hostel places could adversely affect the effectiveness of fostering hostel life. There is also the question of the loss of substantial amounts of hostel fees. The significant number of vacant hostel places warrants proactive action by the institutions concerned (paras. 5.2, 5.7, 5.8, 5.24 and 5.25).

M. *Need to promote the importance of hostel life.* In July 2002, the PolyU conducted a survey to ascertain the reasons for the unsatisfactory take-up rate of its student hostels. The students' responses suggested that they might not fully appreciate the importance of hostel life, in terms of enhancing the quality of university education. Audit considers that there is a need for the institutions concerned to take measures to enhance students' understanding of the educational objective of hostel life (paras. 5.10 and 5.27).

N. *Need to reduce operating costs.* The government policy is that the institutions are required to operate the student hostels on a self-financing basis. The PolyU's July 2002 survey on student hostels indicated that the hostel fee was considered too high by the students. Given the self-financing policy, the level of hostel fee has to be determined having regard to the recurrent operating costs of the student hostels. Audit considers that there is a need for the institutions to critically review the operating costs of the hostels in order to identify possible cost savings (paras. 5.5, 5.26(b) and 5.28).

O. *Use of student hostels during the summer vacation period.* All the institutions allow the letting out of some hostel places during the summer vacation period June to August to outside organisations, including educational, charitable, or other public organisations. Audit noted that during the summer vacation period in 2002, the occupancy rates of the student hostels of four institutions were rather low, i.e. below 50%. These include the HKIEd (occupancy rate: 19%), the LU (24%), the HKBU (27%) and the CUHK (44%). Audit considers that there is scope for improving the occupancy rates of the student hostels during the summer vacation period (paras. 5.39 to 5.41).

Energy management

P. *The most economical tariff not always selected.* The bulk of energy consumed by the institutions is electricity. In 2001-02, the electricity charges paid by the institutions ranged from \$11 million to \$98 million (para. 6.2). The two electricity suppliers in Hong Kong offer different bulk consumption tariffs to their customers (paras. 6.4 to 6.8). Audit reviewed the electricity consumption patterns of all major electricity accounts of the institutions in 2001-02 and noted that some institutions had not selected the most economical tariff for some of their accounts (paras. 6.9 to 6.28).

Q. *Energy management review should be regularly carried out.* Audit noted that only CityU, the HKBU and the CUHK conducted energy management reviews on a regular basis; other institutions adopted an ad hoc approach to reviewing their energy consumption. Audit considers that there are merits in introducing a mechanism for regularly reviewing energy consumption (paras. 6.38 and 6.39).

Outsourcing of institutions' services

R. The institutions have been outsourcing their services (e.g. estate management services, transport service, binding and lamination service, etc.), in varying degrees, to enhance cost-effectiveness and achieve cost savings. Some institutions have achieved significant savings from outsourcing their services. Audit notes that there is scope for more outsourcing, particularly for those institutions where a large proportion of services are still being provided by in-house staff. Audit estimated that if, for example, the institutions outsource all their cleaning and security services that are being provided by in-house staff, annual savings of \$31 million could be achieved (paras. 7.2 to 7.17).

Role of purchasing offices in the institutions

S. In 2001, the HKUST's Internal Audit Office conducted a review of the role and performance of its purchasing office. The Internal Audit found that not much value could be added by the office for its involvement in the purchase of small value items. The findings of the Internal Audit were endorsed by the HKUST's Audit Committee which suggested that the office should use its professional resources to promote and undertake high value-added activities of strategic purchasing, instead of continuing to be involved in the purchase of small value items. Nevertheless, Audit's examination revealed that the office was still handling a large number of low-value items. Audit considers that there is scope for achieving cost savings by implementing the suggestion of the HKUST's Audit Committee. Audit also noted that, apart from the HKUST, no similar management reviews of the role of the purchasing offices had been conducted by the other institutions. Audit considers that there is a need for these institutions to carry out similar reviews to enhance the cost-effectiveness of their purchasing offices (paras. 8.4 to 8.7 and 8.9).

Audit recommendations

T. Audit has made the following major recommendations to the Administration and the UGC-funded institutions that:

Provision of SSQ

- (a) all institutions, except the LU, should take urgent action to make beneficial use of the vacant SSQ. Possible courses of action include returning them to the Government, selling or leasing them out in the open market, or converting them into other gainful uses (para. 2.39(a));
- (b) all institutions, except the LU and the HKU, should consider partnering with property agents in the private sector to lease out the vacant SSQ more efficiently (para. 2.39(b));
- (c) the PolyU should direct eligible staff to take up the vacant SSQ, instead of paying them PTA to rent their own accommodation (para. 2.39(c));
- (d) the HKBU, the CUHK, the PolyU and the HKUST should implement a top-up requirement to ensure that PTA/HFA staff pay market rents for the SSQ they occupy (para. 2.39(d));

- (e) the HKIEd, the HKUST, CityU and the HKU should critically review whether there is a genuine need for allocating SSQ for warden or operational purposes (para. 2.39(f));
- (f) the HKIEd, the HKUST and the HKU should critically review the justifications for not charging rent for the SSQ allocated for warden or operational purposes and, where necessary, require the staff concerned to pay an appropriate rent (para. 2.39(g));

Provision of JSQ

- (g) the institutions, which are still providing JSQ for operational reasons, should critically review whether there is still an operational need to provide the JSQ (para. 3.5(a));
- (h) if it is concluded that the operational need no longer exists, the institutions concerned should draw up action plans to phase out the JSQ and to make beneficial use of the JSQ (para. 3.5(b));

Provision of GQ

- (i) the institutions should closely monitor the utilisation of their GQ, ascertain the reasons for the high vacancy rates and take effective measures to improve the utilisation of their GQ (para. 4.7(a));
- (j) the institutions should critically review the future demand for the GQ, having regard to the high vacancy rates (para. 4.7(b));
- (k) if the number of GQ is found to be in excess of the requirements, the institutions should draw up action plans to properly dispose (or make beneficial use) of the surplus GQ (para. 4.7(c));

Student hostels

- (l) in cases where the provision of student hostels is a relatively new initiative, the institutions should take appropriate measures to foster a strong culture of hostel life and to enhance students' understanding of the educational objective of hostel life (para. 5.29(a));
- (m) the institutions should critically review the operating costs of the student hostels to identify possible cost reduction measures (para. 5.29(d));
- (n) the institutions should seek additional income opportunities to meet part of the operating costs of the student hostels (para. 5.29(e));

- (o) the institutions should closely monitor and take appropriate measures to improve the occupancy rates of student hostels during the summer vacation period (para. 5.42);

Energy management

- (p) the institutions should select the most economical tariffs available for their electricity accounts and regularly monitor the electricity consumption pattern of their accounts to ensure that the most economical tariff is used (para. 6.29(a) and (c));
- (q) the institutions should consider introducing a mechanism for regularly reviewing their energy consumption and perform a detailed analysis of the energy consumption trend when conducting an energy consumption review (para. 6.43(a) and (b));

Outsourcing of institutions' services

- (r) the institutions should assess the costs and benefits of further outsourcing the institutions' services (para. 7.18(a));
- (s) if it is considered that further outsourcing is appropriate, the institutions should devise a long-term strategy for progressively increasing the extent of outsourcing and clearly define the role of the in-house team (para. 7.18(c));

Role of purchasing offices in the institutions

- (t) the HKUST should redefine the role and function of the purchasing office so that it will concentrate on high value-added activities of strategic purchasing, and identify savings that can be achieved after the purchasing office has taken up its new role (para. 8.8); and
- (u) the institutions should carry out periodic reviews of the role of their purchasing offices, so as to identify scope for improving the cost-effectiveness of the procurement process (para. 8.10).

Response from the Administration and the UGC-funded institutions

U. The Administration and the UGC-funded institutions have generally accepted the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background and the objectives of the audit report.

Background

1.2 Tertiary education is an important part of the education system. In 2002-03, the approved budget for tertiary education amounted to \$13.5 billion, which represented 28% of the total government expenditure on education and 5% of the total government expenditure.

University Grants Committee

1.3 The University Grants Committee (UGC) is a non-statutory advisory committee responsible for advising the Government on the development and funding needs of tertiary institutions in Hong Kong. It has neither statutory nor executive powers. The UGC is appointed by the Chief Executive of the Hong Kong Special Administrative Region. It comprises a Chairman and 21 members. The membership of the UGC and its subordinating committees includes academics from local and overseas tertiary institutions. The UGC is supported by a secretariat which is headed by the Secretary-General, UGC. The Secretary-General is the Controlling Officer who accounts for the expenditure of the UGC, including grants made to the higher-education institutions.

1.4 The main functions of the UGC are to:

- (a) advise the Government on the development and funding of higher education in Hong Kong;
- (b) administer government grants made to the UGC-funded higher-education institutions;
- (c) maintain and improve the quality of teaching, learning and research in the UGC-funded institutions; and
- (d) monitor the efficiency and effectiveness of the institutions' activities.

UGC-funded institutions

1.5 There are eight higher-education institutions which receive government grants through the UGC. They are, in alphabetical order:

- (a) City University of Hong Kong (CityU);
- (b) Hong Kong Baptist University (HKBU);
- (c) Lingnan University (LU);
- (d) The Chinese University of Hong Kong (CUHK);
- (e) The Hong Kong Institute of Education (HKIEd);
- (f) The Hong Kong Polytechnic University (PolyU);
- (g) The Hong Kong University of Science and Technology (HKUST); and
- (h) The University of Hong Kong (HKU).

1.6 In the 2000-01 academic year (normally from September to August), the eight institutions together enrolled 59,408 full-time students and 22,064 part-time students (Note 1). They are hereinafter referred to as the institutions.

1.7 Each of the eight institutions is an autonomous body which was established under its own ordinance with its own governing council. The institutions have substantial freedom in the control of their curricula and academic standards, selection of staff and students, and internal allocation of resources. The institutions are diverse in character and in their different contributions to the educational, cultural and economic development of Hong Kong. As stated in the UGC's report "*Facts and Figures 2001*", the eight institutions can be categorised according to their characteristics as follows:

- (a) ***CUHK, HKUST and HKU:*** concentrating on first and higher degree work, and emphasising scholarship and research;
- (b) ***CityU and PolyU:*** offering a range of programmes including sub-degree, undergraduate and postgraduate courses, with a strong emphasis on professional and vocational education;

Note 1: *The 59,408 full-time students included 10,284 sub-degree students, 44,241 undergraduate students, 1,593 taught postgraduate students, and 3,290 research postgraduate students. The 22,064 part-time students included 8,365 sub-degree students, 3,365 undergraduate students, 9,662 taught postgraduate students, and 672 research postgraduate students.*

- (c) *HKBU and LU*: aiming at providing a broad general education rather than a specialised professional training; and
- (d) *HKIEd*: offering a wide range of courses for the teaching profession.

UGC Higher Education Review

1.8 In May 2001, the Secretary for Education and Manpower commissioned the UGC to launch a comprehensive review of higher education. The review was led by Lord Sutherland, who was a senior member of the UGC and Principal and Vice-Chancellor of the University of Edinburgh of the UK. The review covered all aspects of higher education provision, including the governance of universities. In March 2002, the UGC published the review report entitled “*Higher Education in Hong Kong*” (the Sutherland Report). Following public consultation on the Sutherland Report, the UGC submitted its final recommendations to the Secretary for Education and Manpower in September 2002. The Government accepted most of the UGC’s final recommendations and announced in November 2002 a blueprint for the further development of higher education in Hong Kong.

Audit review of UGC-funded institutions

1.9 Against the above background, Audit has recently conducted a value for money audit on the institutions. Since this is a broad subject, the scope of this audit review is divided into three topics. The audit findings are contained in three separate reports, as follows:

- (a) University Grants Committee funded institutions — General administrative services (the subject matter of this report);
- (b) University Grants Committee funded institutions — Governance, strategic planning and financial and performance reporting (Chapter 8 of Director of Audit’s Report No. 40); and
- (c) University Grants Committee funded institutions — Staff remuneration packages and stipends (Chapter 10 of Director of Audit’s Report No. 40).

Audit review of UGC-funded institutions: General administrative services

1.10 Tertiary institutions require administrative support to provide a cost-effective tertiary education to students. Administrative expenses incurred by the institutions constitute a significant proportion of the total expenditure of the institutions. The overall cost of tertiary education can be reduced if an effective mechanism for control of expenditure is in place in each institution.

1.11 Audit has recently conducted an examination to review:

- (a) the provision of senior staff quarters (PART 2);
- (b) the provision of junior staff quarters (PART 3);
- (c) the provision of guest quarters (PART 4);
- (d) student hostels (PART 5);
- (e) energy management (PART 6);
- (f) the outsourcing of institutions' services (PART 7); and
- (g) the role of purchasing offices in the institutions (PART 8).

1.12 The objectives of the audit review are to examine the systems and arrangements in the institutions for ensuring that cost-effective administrative support is being provided. Audit has found that there are areas where improvements can be made. Audit has made a number of recommendations to address the issues.

1.13 In carrying out the audit review, Audit examined the records and interviewed the staff of the eight institutions and the UGC Secretariat. Audit would like to acknowledge with gratitude the full cooperation of the staff of the eight institutions and the UGC Secretariat.

General response from the HKU

1.14 The **Vice-Chancellor, The University of Hong Kong** has compiled an overarching statement on the whole audit review exercise (comprising three separate audit reports — see para. 1.9 above). The purpose of this statement is to provide all stakeholders (including the Public Accounts Committee of the Legislative Council (LegCo) and the public at large) with pertinent background information on the academic, moral and social values of higher education, so that they can interpret the audit reports in the proper context. The HKU's overarching statement is attached at Appendix A in Chapter 8 of Director of Audit's Report No. 40 on University Grants Committee funded institutions — Governance, strategic planning and financial and performance reporting.

PART 2: PROVISION OF SENIOR STAFF QUARTERS

2.1 This PART examines the provision of senior staff quarters (SSQ) by the institutions.

Housing benefits for senior staff

2.2 Senior staff of the institutions are eligible for housing benefits in the form of either SSQ or payments of allowances. On 1 October 1998, a Home Financing Scheme (HFS), along the lines of the civil service HFS, was implemented in the institutions. With the introduction of the HFS, staff appointed before 1 October 1998 are treated differently in their entitlements of the housing benefits, from those appointed on or after that date.

Housing benefits for senior staff appointed before 1 October 1998

2.3 Senior staff appointed before 1 October 1998 are granted one of the following housing benefits:

- (a) **SSQ.** SSQ are provided to eligible staff remunerated on a salary equivalent to point 45 or above on the civil service Master Pay Scale (MPS — Note 2). Staff are required to pay a rent equal to 7.5% of their monthly salary to the institution for the SSQ allocated to them;
- (b) **Private Tenancy Allowance (PTA).** The PTA is payable monthly to eligible staff remunerated on a salary equivalent to MPS point 34 or above who take up private tenancies. The institutions deduct 7.5% of their monthly salaries for the payment of PTA; or
- (c) **Home Financing Allowance (HFA).** Under the HFS introduced on 1 October 1998, an HFA is payable monthly for a period of ten years to staff remunerated on a salary equivalent to MPS point 34 or above for renting accommodation or purchase of a local residential land property which is subject to a current mortgage.

Note 2: *After the introduction of the common terms of service by the institutions in 1995 (1998 for CityU), staff recruited overseas, like the local staff, are eligible for quarters when they reach MPS point 45 and eligible for Private Tenancy Allowance when they reach MPS point 34. However, staff appointed on overseas terms before the introduction of the common terms of service are eligible for SSQ irrespective of their salary points. In the HKIEd, the terms and conditions of service of local staff and staff recruited from overseas are the same because it has adopted the common terms of service since its establishment in 1994.*

2.4 Serving staff appointed before 1 October 1998 were required to make an **irrevocable option** whether to join the HFS or to retain their eligibility for SSQ or the PTA.

Housing benefits for senior staff appointed on or after 1 October 1998

2.5 For senior staff appointed on or after 1 October 1998, the institutions provide the HFS as a condition of service and the only form of housing benefit. However, for those appointed from outside Hong Kong who have accommodation needs, SSQ may be provided to them up to a maximum of three years during their first contracts of employment (Note 3).

Rental of surplus SSQ is shared with the Government

2.6 Since 1 October 1998, many SSQ have been vacated by staff who joined the HFS. As the Government provides funding for the HFS, the Government is entitled to share the rental value of those publicly-funded SSQ that have become surplus under the scheme but have not been returned to the Government. According to an agreed arrangement:

- (a) the institutions are allowed to rent surplus SSQ to serving staff of the institutions, overseas visitors or outsiders;
- (b) the notional rental incomes (i.e. the rateable values of the SSQ or, where these are not available, the notional rental value as supplied by the institutions) are shared between the Government and the institutions on a 70:30 basis. The Government's share of the notional rental incomes would be used to offset the Government's recurrent grant to the institutions; and
- (c) a nil-income period of 12 months is assumed after an SSQ has been vacated.

Audit review in 1997

2.7 In the Director of Audit's Report No. 29 of October 1997, Audit invited the attention of the Administration and the institutions to areas for improvement in the management of SSQ at some of the institutions. These included, for example, the large number of vacant SSQ and the allocation of SSQ to ineligible staff. In its Report No. 29 of February 1998, the Public Accounts Committee (PAC) urged:

Note 3: *The HKIED does not provide SSQ for appointees recruited from outside Hong Kong but offers them HFS.*

- (a) the Secretary-General, UGC to adopt a proactive approach to ensure that the institutions put their quarters to optimal use;
- (b) the Administration to consider setting up a special task force for the development of a comprehensive strategy for dealing with the surplus quarters and monitoring the implementation of the strategy; and
- (c) the Secretary-General, UGC to draw up clear guidelines restricting the circumstances under which quarters could be allocated to ineligible staff. The PAC also stated that consideration might be given to allowing the institutions to have the discretion to require the staff who were ineligible to occupy quarters to pay commercial rent.

Task Force on Usage of UGC-funded Institutions' Surplus Staff Quarters

2.8 In December 1998, the Government set up a Task Force on Usage of UGC-funded Institutions' Surplus Staff Quarters (hereinafter referred to as the Task Force) to monitor the status of surplus SSQ and to return them to the Government at an appropriate time. The Task Force, chaired by the Secretary-General, UGC, is made up of staff of the institutions and relevant government departments (Note 4). The Task Force receives periodic reports on the status of surplus SSQ from the institutions.

Reduction in the stock of SSQ held by institutions

2.9 As expected, a large number of SSQ have become surplus to requirement when serving eligible staff opted for the HFS or left the institutions. Some surplus SSQ were returned to the Government, converted into other uses (e.g. student hostels), sold in the open market, or deleased (for leased quarters). As a result, the number of SSQ held by the institutions had decreased from 1,872 in May 1997, by 378 (i.e. 20%), to 1,494 in October 2002. Table 1 below shows the reduction in the number of SSQ during the period May 1997 to October 2002.

Note 4: *Chaired by the Secretary-General, UGC, the Task Force has the following members: a representative from each of the eight institutions; a representative from the Education and Manpower Bureau; a representative from the Financial Services and the Treasury Bureau; a representative from the Lands Department; and an Assistant Secretary-General, UGC (as the Secretary).*

Table 1
Reduction in the number of SSQ
during the period 1 May 1997 to 31 October 2002

Institution	Total no. of SSQ held in May 1997 (Note 1)	No. of SSQ returned to the Government	No. of SSQ deleased or converted to other uses (Note 2)	Increase/ (decrease) in no. of SSQ during the period (Note 3)	Total no. of SSQ held in October 2002 (Note 1)
	(a)	(b)	(c)	(d)	(e) = (a) - (b) - (c) + (d)
HKU	508	-	(17)	(10)	481
HKUST	408	-	(11)	40	437
CUHK	292	-	(113)	72	251
PolyU	271	(155)	(50)	-	66
CityU	224	-	(50)	16	190
HKBU	103	(45)	(7)	(1)	50
LU	34	-	(34)	-	-
HKIEd	32	-	(112)	99	19
Total	<u>1,872</u>	<u>(200)</u>	<u>(394)</u>	<u>216</u>	<u>1,494</u>

Source: Institutions' records

Note 1: The lodges provided for the Heads of Institutions were excluded from the total number of SSQ.

Note 2: The other uses included student residence, academic support facilities and guest quarters.

Note 3: The figures shown in this column represented the number of new SSQ completed (net off by the number of SSQ sold) during the period May 1997 to October 2002.

Follow-up audit review

2.10 Against this background, Audit recently conducted a follow-up review on the utilisation of the SSQ at the institutions to ascertain if there was further room for improvement. The audit findings are reported as follows:

- (a) vacant SSQ at the institutions (see paras. 2.11 to 2.15 below);

(b) rent charging practices for PTA/HFA staff occupying SSQ (see paras. 2.20 to 2.24 below); and

(c) allocation of SSQ for operational reasons (see paras. 2.29 to 2.31 below).

Vacant SSQ at the institutions

2.11 Audit's analysis of the position as at 31 October 2002 indicated that, of the **1,494** SSQ held by the institutions, **128** (i.e. 8.6%) were vacant. Compared with May 1997 (at that time 73 SSQ or 4% were vacant), the vacancy position had not improved (see Appendix A). Table 2 below shows the distribution of the 128 vacant SSQ by institutions as at 31 October 2002.

Table 2

Distribution of the 128 vacant SSQ as at 31 October 2002

Institution	Number of vacant SSQ as at 31 October 2002 (Note 1)	Total number of SSQ held as at 31 October 2002	Percentage of vacant SSQ
	(a)	(b)	(c) = $\frac{(a)}{(b)} \times 100\%$
			(%)
HKU	41 (Note 2)	481	8.5
CUHK	29	251	11.6
CityU	20	190	10.5
PolyU	18	66	27.3
HKBU	14	50	28.0
HKUST	4	437	0.9
HKIEd	2	19	10.5
Overall	128	1,494	8.6

Source: Institutions' records

Note 1: The number of 128 vacant SSQ did not include the 83 SSQ which, though vacant at that time, had been allocated pending occupation.

Note 2: For the HKU, it was intended to lease out 29 vacant SSQ to the private market pending the formal approval from the Government.

2.12 Audit's further analysis revealed that 25 (20%) of these 128 vacant SSQ had been vacant for over one year. For six SSQ, the vacancy period had lasted for more than three years. Table 3 below shows an analysis of the vacancy period of the 128 vacant SSQ.

Table 3
Analysis of the vacancy period of the 128 vacant SSQ

Institution	Number of vacant SSQ as at 31 October 2002	Duration of vacancy period				Total
		Less than one year	One to two years	Two to three years	Over three years	
HKU	41	36	5	–	–	5
CUHK	29	20	3	1	5	9
CityU	20	19	1	–	–	1
PolyU	18	12	4	2	–	6
HKBU	14	11	2	–	1	3
HKUST	4	4	–	–	–	–
HKIEd	2	1	1	–	–	1
Total	128	103	16	3	6	25
Percentage	100%	80%	13%	2%	5%	20%

Source: Institutions' records

Audit observations on vacant SSQ at the institutions

2.13 *Need to make effective use of vacant SSQ.* SSQ are valuable assets. The 25 SSQ that were left vacant for over one year could produce a rental income of \$7 million a year. **Audit considers that there is a need for the institutions concerned to take more proactive actions to make effective use of these quarters.** Possible courses of action include returning them to the Government, selling or leasing them out in the open market, or converting them into other gainful uses.

2.14 *Need to partner with the private sector.* With a diminishing number of eligible staff, the number of surplus SSQ will increase, thus giving rise to more vacant SSQ in future. There will be an increasing need to lease out the surplus SSQ in the open market. Not being active players in the property market, the institutions are not well equipped for this task. Audit noted that the HKU had partnered with property agents for leasing out SSQ in the open market. **Audit considers that there is a need for other institutions to partner with property agents in the private sector which are in a much better position to assess the changing needs of the market and to lease out the vacant SSQ more efficiently.**

2.15 *Need to direct eligible PolyU staff to take up vacant SSQ.* As shown in Table 2 of paragraph 2.11 above, as at 31 October 2002, the PolyU had 18 vacant SSQ (or 27% of the available SSQ). However, at the same time, Audit's enquiries revealed that 15 staff who were eligible for SSQ were paid PTA to rent their own accommodation. Audit estimated that if these 15 staff had taken up the vacant SSQ, the payment of PTA of \$4 million a year could have been saved. **Audit considers that there is a need for the PolyU to direct eligible staff to take up the vacant SSQ, instead of paying them PTA to rent their own accommodation. In this connection, it is worth noting that, in the civil service, it is the Government's practice to direct eligible staff to terminate their private tenancies and to reside in government quarters.**

Comments of the institutions

2.16 In February 2003, CityU commented that:

- (a) of the 20 vacant SSQ, 11 of them had been vacant for a relatively short period of time (from 1/2 to 3 months only);
- (b) over the year, repeated efforts had been made to maximise their usage. Four leasing-out exercises were conducted in March, October and November 2002 and February 2003 for the vacant units. In the October 2002 exercise, with a deadline of 11 November 2002, five units were successfully leased out. Though the February 2003 exercise failed to attract any tenants due to the poor rental market in Hong Kong at the moment, CityU would actively consider all possible options to lease out the vacant SSQ; and
- (c) the Land Grant did not allow institutions to sell or lease out surplus SSQ in the open market. Even if CityU were allowed to do so, because all the SSQ in CityU were built on campus, unless CityU were to sell or lease them out in blocks with clear cut liabilities and management responsibilities, extra resources to deal with day-to-day problems and disputes would be required.

2.17 In March 2003, the **HKIED** commented that:

- (a) in 1994, when the Master Plan of the Tai Po Campus Development Project was approved, a projection of 525 academic staff was included. The then Education and Manpower Bureau (EMB) expected the HKIED to operate on a staff:student ratio of 1:9 and an academic staffing mix ratio of 1:2:4 for Principal Lecturer:Senior Lecturer:Lecturer. These parameters formed the basis for the decision to construct 99 SSQ. Since then, and in line with the advice of the Government/the UGC, the development scope and direction of the HKIED had changed substantially. Following the entry to the UGC, the HKIED was asked to gradually change the staff:student ratio to 1:14 and to revise the academic staffing mix ratio to 1:3:10. The total number of senior academic staff who would have been eligible for SSQ according to the then eligibility criteria had thus not grown as fast and large as originally planned. This alone had already substantially reduced the requirement for SSQ. The Government's introduction of the HFS for all eligible staff of all institutions in 1998 had also further substantially reduced the requirement for SSQ; and
- (b) with so many nearby private sector vacant apartments, which were generally more conveniently located and provided more facilities for residents, and coupled with the fact that the HKIED imposed market rentals for the on-campus SSQ and that they were fully integrated to the campus (and were located at the far end of the campus), it was very difficult and impractical to lease out the SSQ to outsiders or to return the vacant SSQ to the Government.

2.18 In March 2003, the **PolyU** commented that:

- (a) in response to the Director of Audit's Report No. 29 of October 1997 on home financing and use of SSQ in the institutions, the PolyU had decided to direct eligible staff taking up PTA to move into the PolyU's SSQ at Pak Sui Yuen and Pak Tak Yuen, when their tenancies expired. However, the implementation of the HFS with effect from 1 October 1998 had a significant impact on the PolyU's plan to utilise SSQ because many staff who were so directed and due to move into SSQ decided to join the HFS instead. In anticipation of a substantial number of staff joining the HFS within the initial 3-year period and in order to make the best use of SSQ, staff were directed to move between different apartments within and between Pak Sui Yuen and Pak Tak Yuen. These measures brought about significant disruption to the normal activities of the staff concerned and their families such that corresponding management efforts had to be made to resolve the issues. The earlier management directive for all eligible staff to move into SSQ had also been suspended in order to avoid further impromptu moves; and

- (b) in 1999, when it became quite clear that more staff than previously anticipated by the Government had opted or would opt to join the HFS, the PolyU considered it in the best public interest to return all SSQ at Pak Tak Yuen to the Government. To implement this decision, many staff had to be relocated again within a short time frame, and some had to be provided with short-term leased SSQ or PTA to reduce the impact on their families. Indeed, it was with the great understanding and cooperation of all staff concerned that the 155 SSQ in Pak Tak Yuen were eventually returned to the Government in September 2000, which resulted in the only successful materialisation to-date of cost savings from the HFS with \$660 million revenue generated at a public land sale.

Types of SSQ occupants

2.19 Of the 1,366 (i.e. 1,494 minus 128 — see para. 2.11 above) SSQ that had been allocated as at 31 October 2002, Audit's analysis indicated that:

- (a) 71 (or 5%) were occupied by staff who were not eligible for SSQ but were eligible for PTA (see para. 2.3(b) above). They are hereinafter referred to as PTA staff;
- (b) 434 (or 32%) were occupied by staff who were not eligible for SSQ but were eligible for HFA (see paras. 2.3(c) and 2.5 above). They are hereinafter referred to as HFA staff;
- (c) 178 (or 13%) were occupied by other ineligible staff or outsiders. They paid market rents for the quarters occupied; and
- (d) 34 (or 3%) were allocated for various other purposes, including some SSQ that were allocated to ineligible staff for operational reasons, or to visiting academics under exchange programmes.

Further details are at Appendix B.

Rent charging practices for PTA/HFA staff occupying SSQ

2.20 As a measure to improve the occupancy rate of the SSQ, the institutions lease out some of their SSQ to the PTA/HFA staff (see para. 2.19(a) and (b) above) by paying them PTA/HFA and collecting such allowances from them as the rental charge. In many cases, the market rents of the SSQ are higher than the PTA/HFA entitlements of these staff. Audit made enquiries as to whether, in such cases, the staff concerned were required to pay to the institutions an extra amount equal to the difference between the market rents of the SSQ they occupied and their PTA/HFA entitlements. The institutions' responses indicated that the practices varied, as shown in Table 4 below.

Table 4

**Rental charging/valuation practices adopted by institutions
for PTA/HFA staff occupying SSQ**

Institution	Basis of rental charge for PTA/HFA staff occupying SSQ		Basis of rental value used for calculating notional rental income to be shared with the Government (Note)	
	PTA staff	HFA staff	PTA staff	HFA staff
CityU	Market rent	Market rent	Rateable value	Rateable value
HKIEd	Market rent	Market rent	Rateable value	Rateable value
HKU	Market rent	Market rent	Rateable value	Rateable value
PolyU	PTA	HFA	Rateable value	Rateable value
HKBU	Rateable value	HFA	Rateable value	Rateable value
CUHK	Rateable value	HFA	Rateable value	Rateable value
HKUST	Rateable value	HFA	Rateable value	HFA

Source: Institutions' records

Note: As indicated in paragraph 2.6 above, the Government is entitled to share the rental value of those publicly-funded SSQ that have become surplus under the HFS but have not been returned to the Government.

2.21 Audit noted from Table 4 above that:

- (a) three institutions (i.e. CityU, HKIEd and HKU) stated that they required their staff to pay to the institutions an extra amount equal to the difference between the market rents of the SSQ being occupied and the staff's PTA/HFA entitlements (hereinafter referred to as the top-up requirement);
- (b) one institution (i.e. PolyU) stated that it had no top-up requirement; and
- (c) three institutions (i.e. HKBU, CUHK and HKUST) stated that they treated PTA staff and HFA staff differently. The top-up requirement applied to PTA staff but not HFA staff.

2.22 The practices of some institutions, as stated in paragraph 2.21(b) and (c) above, indicate that some PTA/HFA staff were, in effect, given housing benefits in excess of their entitlements. Table 5 below shows that, as at 31 October 2002, there were 156 such staff in various institutions. Audit estimates that the additional housing benefits of these staff could amount to \$13 million a year, as shown below.

Table 5

**Additional housing benefits for
PTA/HFA staff not required to top up the difference between
the market rents of the SSQ they occupied and their PTA/HFA entitlements
(position as at 31 October 2002)**

Institution	Number of PTA/HFA staff	Estimated additional housing benefits per annum (Note 1) (\$'000)
HKUST	109 (Note 2)	10,563
CUHK	24 (Note 2)	952
PolyU	16	1,333
HKBU	6 (Note 2)	297
CityU	1 (Note 3)	78
Total	<u>156</u>	<u>13,223</u>

Source: Institutions' records

Note 1: The estimated amount of additional housing benefits represented the difference between the market rents of the SSQ the staff occupied and their PTA/HFA entitlements.

Note 2: For the HKUST, the CUHK and the HKBU, these figures refer to HFA staff only. As indicated in paragraph 2.21(c) above, these three institutions had a top-up requirement applicable only to PTA staff but not HFA staff.

Note 3: As indicated in paragraph 2.21(a) above, CityU had a top-up requirement. However, Audit noted an exceptional case in which this requirement had not been followed.

Audit observations on the rent charging practices for PTA/HFA staff occupying SSQ

2.23 It was the Government's subvention policy that the terms and conditions of service of staff in subvented organisations, including the institutions, should not be superior to those provided by the Government to comparable grades in the civil service. PTA/HFA staff in the civil service are not provided with SSQ. Like other members of the public, they may lease the Government's surplus quarters in the open market by paying market rents. The top-up requirement adopted by some institutions (see para. 2.21(a) above) therefore complied with the Government's subvention policy. **Audit considers that there is a need for the other institutions (i.e. HKBU, CUHK, PolyU and HKUST) to implement a similar top-up requirement.**

2.24 As for CityU, which already had a top-up requirement, Audit could not find any good reasons on record for allowing an exception to exist (see Note 3 in Table 5 of para. 2.22 above). **There is a need for CityU to review this case and, as soon as possible, request the staff concerned to comply with the top-up requirement.**

Comments of the institutions

2.25 In February 2003, CityU commented that the exceptional case in which the top-up requirement had not been followed was an isolated case. In approving the exception, CityU took into account factors such as the nature of appointment and the likelihood that the unit would be left vacant if the staff member was assigned to another unit with a rental within the limit of the staff member's housing allowance. CityU had already made arrangements to rectify the case, and the staff member would move out of the SSQ in question shortly.

2.26 In March 2003, the HKBU commented that for HKBU staff using PTA to rent the SSQ, the HKBU had always used the rateable value as the basis for charging rental although discounts were offered in some cases as a result of negotiation with staff. This was an expedient way for reducing the vacancies in the SSQ. Two of these staff members were currently required to top up their PTA.

2.27 In March 2003, the HKBU, the CUHK and the HKUST commented that the HFA was deemed by the institutions as equivalent to the market rental. At a meeting to discuss the proposed HFS on 10 July 1998 between the Government, the UGC and the institutions, the then Deputy Secretary for the Treasury stated that "..... the Administration was prepared to allow the staff an option to contribute the HFA for renting on-campus university accommodation. The notional rental income would be deemed to be equivalent to the market rental in these cases and would be subject to sharing according to the 70:30 formula". Hence, they were under the impression that the Government had already given explicit endorsement of the current practice (see para. 2.43(c) below).

Audit views on the comments of the institutions

2.28 As indicated in paragraph 2.21 above, most of the PTA/HFA staff occupying SSQ (i.e. staff of CityU, HKIEd and HKU and the PTA staff of HKBU, CUHK and HKUST) were subject to the top-up requirement. **Audit considers that in view of the disparity in the treatment of renting SSQ to PTA/HFA staff by the institutions, the institutions should have sought the explicit endorsement of the Government for granting these staff additional housing benefits to which they were not entitled.**

Allocation of SSQ for operational reasons

2.29 As at 31 October 2002, four institutions allocated eight SSQ to staff for operational reasons, without requiring them to pay market rent. The staff concerned were required to live in the quarters. Seven of them who acted as wardens were not required to pay rent. The other staff member was an Assistant Building Services Manager of the HKUST, who was required to pay 7.5% of his monthly salary as the rental charge. Table 6 below shows the distribution of these quarters by institutions.

Table 6

**Allocation of SSQ to staff for operational reasons
as at 31 October 2002**

Institution	Number of SSQ allocated for operational reasons
HKIEd	3
HKUST	3
CityU	1
HKU	1
Total	<u>8</u>

Source: Institutions' records

Audit observations on the allocation of SSQ for operational reasons

2.30 According to Audit's estimate, the market rents of the eight SSQ could amount to \$2.5 million a year.

2.31 **In view of the substantial costs involved, Audit considers that there is a need for the institutions concerned to critically review the justifications for using these quarters for operational purposes, particularly at the HKIEd and the HKUST which had each allocated three SSQ for operational reasons.** In the review, the institutions need to pay due regard to the fact that four other institutions (i.e. HKBU, LU, CUHK and PolyU) did not allocate SSQ for operational reasons.

Comments of the institutions

2.32 In February 2003, CityU commented that since no accommodation had been planned for wardens in the student hostels at the Jockey Club House and the To Yuen Building, an SSQ was therefore used for this purpose. Student hostels should not be treated purely as an accommodation. The warden played a vital role in enhancing students' educational experience of living in student hostels. He or she must be able to provide pastoral and intellectual guidance by maintaining visibility and close contacts with the student hostel residents and be easily accessible by them. To promote a caring and enriching hostel life, and to enable handling of an emergency situation, there were operational needs for the warden to live in close proximity to the hostel students and be immediately accessible by them. Living on site was a necessary condition for a warden to perform his or her role. The SSQ had therefore been allocated for these purposes, and had been regarded as a post-tied quarters unit (Note 5).

2.33 In February 2003, the HKIEd commented that due to the structural design of the hostel building, the HKIEd was not able to provide accommodation of the right size to the wardens and their families in the student hostels. Since it would be very expensive to make alteration to the existing student hostels, it was considered more cost-effective to utilise the vacant SSQ for warden flats (see Note 5 to para. 2.32 above), though the distance of the SSQ from the hostels had affected to a certain extent the effective functioning of the wardens.

2.34 In March 2003, the HKUST commented that it had allocated two SSQ for warden purposes. The HKUST's self-financed university apartments for postgraduate students were

Note 5: *Audit noted that four institutions (HKBU, LU, CUHK and PolyU) did not allocate SSQ to wardens. The wardens usually resided in student hostels. In cases where warden quarters were not provided in the hostels, consideration should be given to converting existing student hostel places into warden quarters.*

designed and built without provision for warden quarters. When the apartments were ready for occupation in late 1996, the HKUST made a decision that for a residential population of up to 760 postgraduate students in the apartments and another 120 postgraduate students in a separate hostel, it was essential to have two postgraduate hostel wardens. It was thus decided to designate two flats in the then newly completed SSQ as warden flats. The same terms for use of warden flats in other student hostels were applied. The two flats in the SSQ allocated as warden flats were in a block nearest to and by the side of the apartments. It would be ideal for warden's flats to be in the same building complex as the hostel but unfortunately it was not possible to convert existing units in the apartments into a flat for a warden with family. The sitting room, the kitchenette and shower and toilet facilities were meant for single persons.

Audit observations on staff occupying operational quarters not required to pay rent

2.35 In the civil service, officers required to live in quarters for operational reasons are normally required to pay rent at 7.5% or 5% of their salaries to the Government. There are exceptional circumstances under which an officer directed to occupy quarters for operational reasons is not required to pay rent. For example, an officer is not required to pay rent if he is not permitted to have his family in residence and is thereby obliged to maintain separate establishments (Note 6).

2.36 For four staff occupying the SSQ in three institutions allocated for warden purposes who were not required to pay rent, there was no documentary evidence to indicate that their cases would fall into the circumstances referred to in paragraph 2.35 above. These include: one staff member in the HKIEd, two in the HKUST and one in the HKU. Thus, by providing quarters rent-free to them, the Government's subvention policy (see para. 2.23 above) might have been breached. **Audit considers that there is a need for the institutions concerned to critically review those cases and, where appropriate, require the staff concerned to pay rent.**

Comments of the institutions

2.37 In February 2003, the **HKIEd** commented that the wardens, who were appointed on fixed-terms and concurrent to their full-time employment in another senior position at the HKIEd, were required to stay on campus. Despite the valuable contributions made during non-office hours

Note 6: *Other circumstances under which an officer is not required to pay rent include: (a) he or his spouse occupies a Civil Servants' Cooperative Building Society flat as a member, or a Government Built Housing Scheme flat as an underlessee, or a public rental housing flat as a registered tenant; or (b) he occupies accommodation in Hong Kong owned by himself or his spouse, including a flat with the legal title to that flat or land transferred from a Civil Servants' Cooperative Building Society, or the Financial Secretary Incorporated in the case of a Government Built Housing Scheme; or (c) he occupies accommodation in Hong Kong purchased by means of a mortgage or bank overdrafts under his or his spouse's name. In the above cases, the officer will pay no rent provided that he receives no benefit from letting that accommodation (Civil Service Regulation 871 refers).*

by the wardens towards the students' hostel life, which the HKIEd considered as an integral part of teacher education, only a small honorarium was paid to the wardens. In the light of this, the HKIEd had not required wardens to make the rental contribution. Of the three wardens who were occupying the SSQ, two of them fulfilled the circumstances as specified in Note 6 to paragraph 2.35 above.

2.38 In March 2003, the **HKUST** commented that the flats used as warden flats were duty flats. From time immemorial, wardens had not been required to deduct 7.5% of their salary as rent for quarters. Warden flats were both the residence and office of a warden. The location was clearly marked and made known to students who might call upon the warden any time of the day. Much of the interaction between the warden and students was held in the warden flat which was designed as best it could be to serve this function.

Audit recommendations on the provision of SSQ by institutions

2.39 **Audit has recommended that the institutions concerned should:**

Vacant SSQ at the institutions

- (a) *for all institutions, except the LU, take urgent action to make beneficial use of the vacant SSQ. Possible courses of action include returning them to the Government, selling or leasing them out in the open market, or converting them into other gainful uses (see para. 2.13 above);*
- (b) *for all institutions, except the LU and the HKU, consider partnering with property agents in the private sector to lease out the vacant SSQ more efficiently (see para. 2.14 above);*
- (c) *for the PolyU, direct eligible staff to take up the vacant SSQ, instead of paying them PTA to rent their own accommodation (see para. 2.15 above);*

Rent charging practices for PTA/HFA staff occupying SSQ

- (d) *for the HKBU, the CUHK, the PolyU and the HKUST, implement a top-up requirement to ensure that PTA/HFA staff pay market rents for the SSQ they occupy (see para. 2.23 above);*

- (e) *for CityU*, rectify the exceptional case referred to in paragraph 2.25 above, as soon as possible (i.e. request the staff concerned to pay market rent for the SSQ occupied by him);

Allocation of SSQ for operational reasons

- (f) *for the HKIEd, the HKUST, CityU and the HKU*, critically review whether there is a genuine need for allocating SSQ for warden or operational purposes, particularly at the HKIEd and the HKUST which had each allocated three SSQ to their staff for such purposes. Consideration should be given to converting existing student hostel places into warden quarters if they have not already been provided in the hostels of the institutions concerned (see para. 2.31 above); and
- (g) *for the HKIEd, the HKUST and the HKU*, critically review the justifications for not charging rent for the SSQ allocated for warden or operational purposes and, where necessary, require the staff concerned to pay an appropriate rent (see para. 2.36 above).

2.40 **Audit has recommended that the Task Force on Usage of UGC-funded Institutions' Surplus Staff Quarters (see para. 2.8 above) should closely monitor the status of all surplus SSQ and take all necessary actions to ensure that the institutions make optimal use of them, having regard to the audit observations in this report.**

Response from the Administration and the institutions

2.41 **The Secretary for Education and Manpower agrees with the audit recommendations. He has said that:**

- (a) the higher vacancy position of the SSQ may be caused by the introduction of the HFS when a large number of eligible staff have decided to opt for the HFS. As at November 2002, the overall take-up rate of the HFS was 73%. However, the SSQ involve a significant amount of public funds in their construction and opportunity cost of the land for other purposes. The institutions should make the best and efficient use of the SSQ available;
- (b) in respect of publicly-funded SSQ becoming surplus owing to the implementation of the HFS, the Government will share 70% of the notional rental income 12 months after the quarters are vacated;

- (c) to safeguard the efficient and proper use of public resources (financial resources and quarters alike), there should be a common practice among the institutions that all PTA/HFA staff should pay the difference between the market rents of the SSQ and their PTA/HFA entitlements (if any);
- (d) consideration should be given to converting existing student hostel places into warden quarters and to reviewing the justifications for not charging rent for the SSQ allocated for warden purpose;
- (e) as a member of the Task Force on Usage of UGC-funded Institutions' Surplus Staff Quarters, the EMB will work with others to ensure that surplus SSQ are put to optimal use;
- (f) as part of the Administration's proposal to deregulate university pay and housing benefits, the mandatory requirement to offer HFS for staff appointed on or after 1 July 2003 as the only form of housing benefit is proposed to be removed. The institutions are free to determine whether there should be a component of housing benefits in the remuneration package for these staff and, if so, the form of such benefits (including SSQ). With this flexibility, the institutions may be able to make use of some of the vacant SSQ for their new staff; and
- (g) on CityU's point about the land lease, the Lands Department has been issuing waivers so that the institutions can rent out surplus SSQ in the open market. Other institutions have no problem with this and he does not understand why CityU finds it difficult to do the same.

2.42 The **Secretary-General, University Grants Committee** agrees with the audit recommendations. He has said that:

- (a) the UGC takes note of Audit's observations and agrees in principle that the institutions concerned should make the best and most effective use of their vacant SSQ;
- (b) to enable the effective use of vacant quarters, the UGC noted that there was an agreement reached between the Government and the institutions in August 2000 that the notional rental of surplus quarters occupied by staff receiving HFA would be calculated based on the rate of the HFA that the occupant was receiving;

- (c) under the deregulation proposal, the mandatory requirement to provide HFS as the only form of housing benefit to staff appointed on or after 1 July 2003 will be removed. The institutions will be free to determine the form of housing benefits to be provided to newly appointed staff. The use of vacant SSQ should be a priority; and
- (d) the Task Force on Usage of UGC-funded Institutions' Surplus Staff Quarters, chaired by the Secretary-General, University Grants Committee will consider the audit recommendations, in conjunction with the other related issues which may arise in a de-linked environment.

2.43 **The Secretary for Financial Services and the Treasury** has said that:

- (a) on 25 February 2003, the Administration announced its decision to remove the central subvention principle, i.e. the subvention policy 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 (the “no better than” principle — see para. 2.23 above), taking into account new guidelines for controlling the number, ranking and remuneration of the top three tiers of staff in subvented organisations;
- (b) insofar as the construction of the SSQ are publicly funded, there is a need for the institutions to ensure the optimal use of the SSQ, including the generation of a reasonable return from those SSQ not occupied by eligible staff. Seen in this light, the audit recommendations on that the institutions should charge market rent for the SSQ occupied by PTA/HFA staff and on reviewing the operational need for allocating their SSQ for warden purposes would stand, irrespective of whether there is a “no better than” subvention principle; and
- (c) the response from the institutions concerning their rent charging practices makes reference to the discussion at a meeting of the Task Force on Usage of UGC-funded Institutions' Surplus Staff Quarters held on 10 July 1998 (see para. 2.27 above). For the avoidance of doubt, what the representative of the former Finance Bureau had said at the meeting was that “... if the institutions saw fit, the Administration was prepared to allow the staff an option to contribute HFA for renting on-campus university accommodation on grounds of encouraging staff to reside on campus to enhance interaction with the students and contribute to quality education. The notional rental value would be deemed to be equivalent to the HFA rates in these cases and would be subject to sharing according to the 70:30 formula.” Reading from these notes of meeting, the focus of discussion was on the basis for determining the notional rental income for the purpose of income sharing, not the basis for determining the level of rent which the institutions should actually charge the PTA/HFA staff renting the SSQ.

2.44 **The President, City University of Hong Kong** has said that:

- (a) CityU welcomes the recommendation of converting surplus SSQ into other gainful uses. However, it needs the Government's support in granting approvals for such issues as change of use (town planning), safety (fire regulations), structural (building regulations) as well as funding;
- (b) "initial accommodation" is provided to new appointees recruited from overseas for a maximum of one year. There are additional requests for "initial accommodation" for new appointees recruited from overseas who will be joining CityU in the coming summer. Six units are required and this will reduce the number of vacant flats; and
- (c) subject to the Government's approval on change of land use, plans will be actively considered for more effective use of SSQ, for example, to lease out vacant SSQ to staff of other institutions or associates of CityU.

2.45 **The President and Vice-Chancellor, Hong Kong Baptist University** generally agrees with the audit recommendations. He has commented that:

- (a) the HKBU has a plan of returning another tower of its SSQ at Fo Tan, Shatin to the Government. This plan has won the support in principle of the HKBU Council. The HKBU will approach the Government about this plan, pending a careful study of the arrangements for housing benefits under the proposal for the delinking/deregulation of university pay which has been made known by the UGC only recently. This impending return of 21 SSQ to the Government will help resolve the SSQ vacancies; and
- (b) the issue of rent charging practices for PTA/HFA staff occupying SSQ should be discussed and re-visited by the Task Force on Usage of UGC-funded Institutions' Surplus Staff Quarters chaired by the Secretary-General, UGC.

2.46 **The Vice-Chancellor, The Chinese University of Hong Kong** has said that:

- (a) out of the 29 vacant SSQ, 16 are in staff quarters constructed with private funding (bank construction loan) and without government financial support. With the impending deregulation of university pay and the removal of the HFS coverage for staff appointed

on or after 1 July 2003, the CUHK expects that the vacant units will be fully occupied soon thereafter;

- (b) with regard to the five SSQ vacant for over three years, these are located on ground or the 1st floor of the buildings in question and understandably not preferred when other units are available. The CUHK continues to explore ways to make better use of these vacant units;
- (c) all SSQ are presently within the campus area. Leasing out the vacant SSQ to the private sector may infringe on the land grant conditions (and cause waiver fee to be chargeable) and also creates other logistical problems connected with running a commercial rental property operation. As mentioned in (a) above, the deregulation of university pay and housing benefits after 1 July 2003 will most likely resolve the situation with respect to the vacant SSQ;
- (d) as noted earlier, in the 1998 discussion with the UGC, the then EMB and the then Finance Bureau, an understanding has already been reached with the Government to treat the notional rental as equivalent to market rental in these cases. Therefore, no additional benefit has been provided nor was there any departure from the subvention policy arising from these HFA staff leasing the SSQ; and
- (e) the CUHK welcomes the audit recommendation as stated in paragraph 2.40 above. However, given the aforementioned deregulation, the status of surplus SSQ may not be clear until a year afterwards. Therefore, the monitoring process should not begin until the second half of 2004.

2.47 **The President, The Hong Kong Institute of Education** has said that:

- (a) the HKIEd will continue to explore the feasibility of making gainful uses of the vacant SSQ; and
- (b) the HKIEd will consider seeking funds to make the necessary alterations to the student hostels in order to create three flats for the wardens.

2.48 **The President, The Hong Kong Polytechnic University** has said that:

- (a) after the disposal of 155 SSQ at Pak Tak Yuen (see para. 2.18(b) above), the utilisation of the only remaining 112 SSQ at Pak Sui Yuen has been carefully monitored by the PolyU. In addition to allocating some SSQ to PTA/HFA staff and conversion of some SSQ to guest quarters to meet demand, consideration has also been given to leasing them out to staff members or in the open market. However, a survey among staff indicated that the demand would not be great. Moreover, the open-market rental would also be quite low in view of its location and condition. Many existing occupants also indicated their intention to move out should the premises be open to the public, thus making it potentially a management and financial problem for the PolyU. In view of the proposed imminent delinking issue which will have an impact on the future requirement for SSQ, and hence the future of Pak Sui Yuen, the PolyU considers it inappropriate to direct the 15 eligible staff currently on PTA to take up these SSQ at this stage. Nonetheless, the PolyU will review the policy when the delinking issue is addressed and consider whether any staff eligible for SSQ should be directed to fill the vacancies;
- (b) the PTA/HFA rates are generally in excess of the market rents of the SSQ occupied by the PTA/HFA staff. The market rents of the SSQ, as advised by a professional surveyor in February 2003, were lower than the rateable values assessed by the Rating and Valuation Department. Such rateable values have been used for calculating the estimated additional housing benefits shown in Table 5 of paragraph 2.22 above; and
- (c) PTA/HFA staff will most likely discontinue their allocation arrangement if a top-up is required. This will create a bigger burden for the PolyU and hence will not be in the public interest. Furthermore, the Government had agreed with the institutions that the HFA could be deemed as the market rent (see para. 2.43(c) above).

2.49 **The President, The Hong Kong University of Science and Technology** has said that:

- (a) only 0.9% of the SSQ at the HKUST were vacant. They will continue to exercise vigilance in ensuring that beneficial use is made of any vacant SSQ; and
- (b) they will continue to make use of property agents in marketing vacant properties in the open market should the need arises.

2.50 **The Vice-Chancellor, The University of Hong Kong** generally agrees with the audit recommendations. He has said that:

- (a) the audit recommendations on making effective use of the vacant SSQ do conform to the measures already implemented by the HKU. Since the HFS was introduced in the institutions in October 1998, the HKU has sold ten SSQ in the private residential property market. Attempts have also been made to rent out some vacant SSQ to student groups, although the response is not as encouraging as anticipated due to students' preferences. Excluding the 29 flats pending the Government's approval for leasing them out in the open market, the overall vacancy rate of the HKU's SSQ as at 31 October 2002 was 2.5% only;

- (b) since April 2000, upon an agreement made with the Government on the administration of the flats to be leased out in the open market, the HKU has appointed a number of property agents to market the flats to the general public; and

- (c) the HKU is of the view that hostel education is an essential element of the "whole-person" education concept, and the pastoral oversight provided by wardens/masters, who only receive a monthly allowance of \$5,970 per month for this valuable contribution, is crucial to this whole process. Wardens/masters are expected to respond to the needs of their respective student residents on a 24-hour basis. The HKU is of the view that:
 - (i) there is a genuine operating requirement for wardens to live either inside or very close to the hostel halls for which they are responsible; and

 - (ii) in consideration of the importance of wardens/masters in hostel education, the requirement on them to provide 24-hour care for their hostel halls, and the meagre amount of monthly allowance payable to them, the HKU considers it inappropriate to charge rent on the warden flats.

PART 3: PROVISION OF JUNIOR STAFF QUARTERS

3.1 This PART examines the provision of junior staff quarters (JSQ) by the institutions.

Stock of JSQ

3.2 Six of the eight institutions provide JSQ to their staff on operational grounds. The size of a JSQ unit ranges from 15 to 54 square metres. Staff occupying the JSQ are required to pay to the institutions a monthly rent which equals:

- (a) 7.5% of their monthly salary, if the staff member is remunerated on a salary equivalent to MPS point 17 or above; or
- (b) 5% of their monthly salary, if the staff member is remunerated on a salary equivalent to MPS point 16 or below.

3.3 As at 31 October 2002, the six institutions had a total of 447 JSQ. Details are shown in Table 7 below.

Table 7

Total number of JSQ of the six institutions as at 31 October 2002

Institution	Flat size of each JSQ (Square metres)	Number of JSQ	Estimated annual market rent for all units (\$'000)
HKU	15 to 36	165 (Note)	7,920
CUHK	40 to 50	116	2,088
HKUST	46 to 54	113	10,445
HKIEd	35 to 37	38	1,639
CityU	15 to 50	9	702
LU	40	6	439
Total		447	23,233

Source: Institutions' records

Note: For the HKU, the total number of JSQ includes 62 units for renting to students temporarily.

Audit observations on the operational need for JSQ

3.4 Under their conditions of service, junior staff of the institutions are not entitled to quarters as a housing benefit. JSQ are intended for operational purposes. **However, the following audit findings call into question the need to provide JSQ for operational reasons:**

- (a) not every institution provides JSQ. The HKBU has so far not found any need to provide JSQ. The PolyU previously had 40 JSQ. However, in 2001, the occupants were required to vacate the quarters. The site is now under redevelopment for other purposes;
- (b) the HKU had 165 JSQ. However, according to an internal review by the HKU in 1999, a vast majority of the occupants were no longer required to perform emergency duties or work at unsociable hours (Note 7). The review concluded that the JSQ would be phased out gradually by natural attrition until there was a concrete plan in place for the redevelopment of the site for alternative uses. It was decided that no new allocation, or transfer, of JSQ would be made from January 2000 onwards. To put the vacant quarters into optimal use, vacant JSQ would be leased out to overseas researchers or visiting scholars on a short-term basis at market rent. This would relieve the housing problem of these visitors and generate additional income for the HKU;
- (c) 24-hour security services are now provided on campus to the institutions either by outside contractors or by in-house security guards. The security guards on duty would attend to any emergency situations that occur in unsociable hours. This mode of operation should have significantly reduced the operational need for the JSQ; and
- (d) there was little documentary evidence to justify the operational need for the JSQ. For example, there was no systematically collected performance data to indicate the number and nature of incidents in which the staff occupying the JSQ had been called out to perform emergency duties in unsociable hours. Without such data, it was difficult for the institutions' management to ascertain whether there was a genuine operational need for the JSQ.

According to Audit's estimates, the 447 JSQ could produce a market rent of \$23 million a year. Audit considers that there is a need for the institutions concerned to critically review the justifications for providing these JSQ for operational reasons.

Note 7: *According to the HKU, unsociable hours refer to the hours between 11:00 p.m. and 6:00 a.m.*

Audit recommendations on the operational need for JSQ

3.5 Audit has *recommended* that the institutions, which are still providing JSQ for operational reasons, should:

- (a) **critically review whether there is still an operational need to provide the JSQ. The review should be based on reliable data showing, for example, the particulars of incidents in which the staff occupying the JSQ have been called out to perform emergency duties in unsociable hours; and**
- (b) **if it is concluded that the operational need no longer exists, draw up action plans to phase out the JSQ and to make beneficial use of the quarters (e.g. leasing them out to overseas researchers).**

Response from the Administration and the institutions

3.6 The **Secretary for Education and Manpower** agrees with the audit recommendations. He has said that the institutions should critically review and justify the operational need for JSQ.

3.7 The **Secretary-General, University Grants Committee** welcomes the audit recommendations for the institutions to review the operational use of JSQ.

3.8 The **President, City University of Hong Kong** has said that as part of its operations, CityU will actively review the operational need for essential staff quarters.

3.9 The **President, Lingnan University** agrees with the audit recommendations. He has said that the LU will critically review whether there is still an operational need to provide the JSQ based on reliable performance data, and if it is concluded that the operational need no longer exists, draw up action plans to phase out the JSQ and to make beneficial use of them.

3.10 The **Vice-Chancellor, The Chinese University of Hong Kong** has said that:

- (a) the provision of JSQ for operational reasons in the CUHK has strong justification, due to its historical background. When the CUHK was established in 1963 and with its remote location at that time, JSQ ensured the junior staff work force was provided with reasonable accommodation and resolved the problem of daily commuting by public transportation, which was grossly insufficient at the time;

- (b) JSQ continue to have a vital role to play, as the campus of the CUHK is similar to a small metropolis with over 100 buildings and major student hostels complex, which require daily servicing and maintenance; and
- (c) JSQ units were built in the early 1960's and lack present day amenities, compared with current public housing standards. The benefits from the availability of these junior staff on a timely basis far exceed the cost of providing such accommodation. In addition, JSQ units are provided on a rental chargeable basis.

3.11 The **President, The Hong Kong Institute of Education** has said that the HKIEd has been very careful in making allocations of JSQ to staff, and believes that there is still an operational need for JSQ, though the number required could be smaller than the current stock.

3.12 The **President, The Hong Kong University of Science and Technology** has said that they will continue to review the operational need for JSQ.

3.13 The **Vice-Chancellor, The University of Hong Kong** agrees with the audit recommendations. He has said that Audit has taken note of the work done by the HKU's Review Group on JSQ and Custodial Quarters formed by the HKU Council in late 1999. The recommendations of the Review Group have been under implementation since 1999. He has also said that the recommendations of the Review Group mostly correspond with the audit recommendations:

- (a) JSQ should no longer be allocated as a form of staff benefit, and the provision should only be made available based on operational needs; and
- (b) with the phasing-out of JSQ as a form of staff benefit, vacant JSQ will be leased out to visitors and scholars.

Audit observations on the vacancy position of JSQ

3.14 Audit's review of the vacancy position of the JSQ at the six institutions indicated that, as at 31 October 2002, there were 70 vacant JSQ (or 16% of the available units). These vacant JSQ could yield a market rent of \$3 million a year. **Audit considers that the institutions concerned should closely monitor the vacancy position of the JSQ and, where necessary, draw up action plans to make optimal use of the vacant JSQ.** Table 8 below shows a breakdown of the vacant JSQ by institutions.

Table 8

Vacancy position of JSQ of the six institutions as at 31 October 2002

Institution	Number of vacant JSQ as at 31 October 2002	Total number of JSQ held as at 31 October 2002	Percentage of vacant JSQ	Estimated annual market rent of vacant JSQ
	(a)	(b)	(c) = $\frac{(a)}{(b)} \times 100\%$	(d)
			(%)	(\$'000)
HKU	28	165	17	1,344
CUHK	18	116	16	324
HKIEd	17	38	45	733
HKUST	5	113	4	490
CityU	2	9	22	157
LU	-	6	-	-
Overall	70	447	16	3,048

Source: Institutions' records

Audit recommendations on the vacancy position of JSQ

3.15 Audit has *recommended* that the institutions concerned should:

- (a) closely monitor the vacancy position of the JSQ; and
- (b) where necessary, draw up action plans to make optimal use of the vacant JSQ.

Response from the Administration and the institutions

3.16 The **Secretary for Education and Manpower** agrees with the audit recommendations. He has said that the institutions should monitor the vacancy position of JSQ, draw up action plans to make optimal use of vacant JSQ, phase them out for alternative uses, or lease them out to generate additional revenue.

3.17 The **Secretary-General, University Grants Committee** welcomes the audit recommendations for the institutions to take effective measures in making optimal uses of the vacant JSQ.

3.18 The **President, City University of Hong Kong** has said that CityU will continue to explore alternative uses of vacant units including leasing them out to research staff from overseas or Mainland China.

3.19 The **President, Lingnan University** has said that since the JSQ were built in 1997, the LU has reduced the number of staff eligible for such staff quarters as most of the LU's facility management services have been outsourced. The surplus JSQ have subsequently been converted into guest quarters.

3.20 The **Vice-Chancellor, The Chinese University of Hong Kong** has said that the CUHK will continue to monitor the vacancy situation and explore ways of making optimal use of the JSQ units, for example, allowing junior research staff to rent on a market rental basis.

3.21 The **President, The Hong Kong Institute of Education** has said that:

- (a) the HKIEd has been monitoring and will continue to closely monitor the usage of the JSQ. The HKIEd will consider alternative uses of the JSQ, including making them available for short-term overseas visitors or letting them to staff/students at market rentals; and
- (b) 9 out of the 17 reported vacant JSQ have already been put into alternative uses such as temporary storage (as HKIEd seriously lacks appropriate space) and other

functions (Note 8). The existing alternative uses of vacant units are temporary and non-hazardous and are intended to utilise the vacant space during this interim period.

3.22 The **President, The Hong Kong University of Science and Technology** has said that the vacancy position of JSQ for the HKUST is very low and they will continue to closely monitor the vacancy position.

3.23 The **Vice-Chancellor, The University of Hong Kong** agrees with the audit recommendations. He has said that:

- (a) following the continuous work done on recommendations of the Review Group on JSQ and Custodial Quarters, as at early March 2003, 62 (37.6%) out of the 165 JSQ were already vacated by staff following natural attrition. These JSQ are for leasing out to students; and
- (b) as there is currently no concrete timetable for redeveloping the JSQ site located at Pokfield Road, the HKU is considering further rationalising its JSQ stock by concentrating staff and student occupants into different dedicated blocks, so as to improve the effectiveness of its management and allocation systems.

Note 8: *In Audit's view, use of JSQ as storerooms and other functions is not desirable because JSQ are valuable assets. Moreover, it is not known whether there is increased risk of fire due to the substandard fire services installations in some of the JSQ, for example, lack of a sprinkler system.*

PART 4: PROVISION OF GUEST QUARTERS

4.1 This PART examines the provision of guest quarters (GQ) by the institutions.

Purposes of GQ

4.2 As at 31 October 2002, the eight institutions had a total of 381 GQ, including 68 former SSQ that had been converted into GQ since 1997. The GQ are used to provide accommodation for:

- (a) institutional guests/visiting scholars;
- (b) research personnel from overseas or Mainland China; and
- (c) exchange students/research students/graduate students/teaching assistants from overseas or Mainland China.

4.3 The size of a GQ unit ranges from 10 to 178 square metres. Two types of accommodation are provided, i.e. short-stay and long-stay. Periods of occupation for more than six months are classified as long-stay. The GQ are let out at market rent on the following basis: bed space, single bedroom, shared bedroom or flat. For short-stay accommodation, if the occupation period is less than one month, rent will be charged on a pro rata basis according to the actual number of room-nights or bed-nights occupied. A breakdown of the total number of GQ of the eight institutions as at 31 October 2002 is shown in Table 9 below.

Table 9

**Total number of GQ of
the eight institutions as at 31 October 2002**

Institution	Flat size of GQ (Square metres)	Number of GQ
CUHK	10 to 33	108 (Note 1)
HKU	11 to 84	80 (Note 2)
HKUST	17 to 74	60 (Note 1)
PolyU	135 to 178	46
CityU	20 to 99	44 (Note 2)
HKBU	100 to 150	20 (Note 1)
LU	40	12
HKIEd	119 to 148	11
		Total <u><u>381</u></u>

Source: Institutions' records

Note 1: For the CUHK, the HKUST and the HKBU, some of their GQ were constructed by non-government funds.

Note 2: For the HKU and CityU, all their GQ were constructed by non-government funds.

Vacancy position of GQ

4.4 Table 10 below shows the average occupancy and vacancy rates of the GQ of the eight institutions for the period July 2000 to October 2002.

Table 10

**Average occupancy and vacancy rates of GQ
for the period July 2000 to October 2002**

Institution	Occupancy rate				Average vacancy rate
	July 2000 to June 2001	July 2001 to June 2002	July 2002 to October 2002	Average	
	(%)	(%)	(%)	(%)	
LU	40	36	32	37	63
HKIEd	45	33	35	38	62
HKUST	32	55	73	48	52
CUHK	57	53	52	55	45
HKBU	66	77	59	70	30
HKU	76	70	62	71	29
PolyU	80	81	59	77	23
CityU	84	81	64	80	20
Overall	60	61	55	60	40

Source: Institutions' records

4.5 Table 10 above shows that the average vacancy rates of the GQ were generally high, which ranged from 63% at the LU to 20% at CityU. Other institutions also had high vacancy rates: the HKIEd (62%), the HKUST (52%) and the CUHK (45%).

Audit observation on the provision of GQ by institutions

4.6 The GQ are valuable assets. **The vacancy rates in general, and the high vacancy rates at some institutions in particular, suggest that there is much scope for improvement in the utilisation of the GQ.** On the assumption that the overall vacancy rate could be reduced to the same as that of CityU (which had the lowest vacancy rate of 20%), Audit estimated that the additional rental income from the GQ could amount to \$12 million a year.

Audit recommendations on the provision of GQ by institutions

4.7 **Audit has recommended that the institutions should:**

- (a) **closely monitor the utilisation of their GQ, ascertain the reasons for the high vacancy rates and take effective measures to improve the utilisation of GQ;**
- (b) **critically review the future demand for the GQ, having regard to the high vacancy rates; and**
- (c) **if the number of GQ is found to be in excess of the requirements, draw up action plans to properly dispose (or make beneficial use) of the surplus GQ. Possible courses of action include returning them to the Government, selling or leasing them out in the open market or converting them into other gainful uses.**

Response from the Administration and the institutions

4.8 The **Secretary for Education and Manpower** agrees with the audit recommendations.

4.9 The **Secretary-General, University Grants Committee** welcomes the audit recommendations for the institutions to take effective measures in making optimal uses of the vacant GQ.

4.10 The **President, City University of Hong Kong** has said that the occupancy rate of CityU's GQ is the best among all institutions. The occupancy rate for July to October 2002 has dropped. This may be due to the slackness of academic activities during the summer time. CityU will continue to improve the utilisation of its GQ. However, priority must be given for ad-hoc academic-related uses. CityU welcomes the recommendation of converting surplus GQ into other gainful uses, subject to the restrictions imposed by the Government on the conditions of the Land Grant (see para. 2.16(c) above). To maximise the utilisation of the short-stay visitors' quarters, the units have been available for booking by staff, their relatives and friends since 2000.

4.11 The **President and Vice-Chancellor, Hong Kong Baptist University** has said that:

- (a) the occupancy rate for the period July to October 2002 was lower because it covered a significant portion of the summer time when the level of academic exchange was usually low or that period was reserved for maintenance work; and
- (b) the HKBU plans to adjust the number of its GQ once the plan of returning another tower of the SSQ to the Government has been implemented. In that case, all the audit recommendations under this PART will be appropriately addressed.

4.12 The **President, Lingnan University** in general agrees with the audit recommendations. He has said that:

- (a) the LU will continue to closely monitor and take effective measures to improve the utilisation of its GQ;
- (b) the average occupancy rates are affected by the very low occupancy rates during June, July and August of each year which covers the summer break when the level of academic exchange, visit by scholars, the needs of visiting professors are usually very low and during which maintenance and renovation works are carried out;
- (c) as the LU's Tuen Mun campus is situated in an area which is considered to be remote and far from Hong Kong's commercial centres, the LU's GQ are not always popular with the LU's overseas visitors especially as hotel rates around Hong Kong have gone down substantially in the past few years; and

- (d) the LU is considering renovating some of the LU's GQ to make them more suitable and attractive for the LU's visiting lecturers and staff recruited from overseas who are eligible for housing benefits.

4.13 **The Vice-Chancellor, The Chinese University of Hong Kong** has said that:

- (a) the GQ of the CUHK were built from donation funding and did not involve public funds. The guest house system also operates on a self-financing basis, without any subsidy from the block grant. As the campus is far away from the downtown area, the GQ provide the needed accommodation for visitors of the CUHK. Since the CUHK will continue to have increasing exchanges with overseas and Mainland China institutions, the availability of GQ charged at a reasonable rate is very important; and
- (b) the CUHK will continue to monitor the situation and explore ways and means of keeping the occupancy of its GQ at a reasonable level.

4.14 **The President, The Hong Kong Institute of Education** has said that the HKIEd will continue to monitor the utilisation of its GQ and to explore ways to increase the occupancy of its GQ, despite the remote location of its campus, and consider alternate usage.

4.15 **The President, The Hong Kong Polytechnic University** has said that the PolyU will continue its current practice to monitor the allocation of its GQ and take effective measures to improve the utilisation of its GQ, having regard to the demand and prevailing market rates.

4.16 **The President, The Hong Kong University of Science and Technology** has said that the HKUST has in recent years introduced innovative measures to improve the occupancy of its GQ and the occupancy rates are currently the highest in the sector. It is a pity that the practice of averaging occupancy rates over a 3-year period gives inadequate weight to measures taken to secure improvement.

4.17 **The Vice-Chancellor, The University of Hong Kong** agrees with the audit recommendations. He has said that:

- (a) the GQ in the HKU are provided mainly at the Robert Black College, which carries the objectives of providing suitable accommodation for overseas academic visitors and graduate students. The College also plays an essential role in advocating cultural integration in the HKU via its cultural and academic programmes;
- (b) the College has been, for many years, able to operate on a self-financing basis and is expected to be able to continue to do so in the foreseeable future (Note 9). It promotes its business regularly amongst the academia both within the HKU and overseas, and monitors the hotel market in Hong Kong to ensure its competitiveness;
- (c) the HKU does not expect that the proportion of surplus GQ in October 2002 will continue. The number of rooms of the College will reduce from 80 to 72 in 2005 as it has already been decided that 8 flats will be reallocated for other uses; and
- (d) a major renovation of the College will be carried out in three stages during the 18 months ending in December 2004 and the renovation will result in room shortage during that period. However, upon completion, the renovation will further improve the marketability of the GQ at the College.

Note 9: *Audit considers that if the utilisation of the GQ, which are let out at market rent, could be improved further, more rental income could be earned by the institutions.*

PART 5: STUDENT HOSTELS

5.1 This PART examines the provision of student hostels by the institutions.

The Government's policy on provision of student hostels

5.2 Following a review by the UGC, in December 1996, the Government promulgated a new policy on the provision of publicly-funded student hostel places. The new policy represented the Government's efforts to enhance the quality of university education by fostering hostel life which would sharpen students' communication skills, nurture their leadership quality, encourage independent thinking and promote participation in community affairs. Under the new policy, the following criteria would be used to calculate the level of provision of student hostels:

- (a) all undergraduate students should be given the opportunity to stay in student hostels for at least one year;
- (b) all research postgraduate students should be granted student hostel places;
- (c) all non-local students should be granted student hostel places; and
- (d) undergraduate students whose daily travelling time exceeds four hours should be provided with student hostel places.

5.3 Subject to the availability of sites and funds, and on condition that the Government would only fund up to 75% of the capital cost of student hostels, the new policy of providing publicly-funded student hostels should apply to all the institutions.

Stock of student hostels of the eight institutions

5.4 As at 31 October 2002, the institutions together had a total of 21,697 student hostel places. In addition, there were 3,228 hostel places under construction and 655 under planning. Table 11 below shows a breakdown of the total number of student hostel places of the eight institutions as at 31 October 2002.

Table 11

Total number of student hostel places of the eight institutions as at 31 October 2002

Institution	Existing stock	Under construction	Under planning	Full-time (FT) and/or part-time (PT) students (Note 1)
	(No.)	(No.)	(No.)	(No.)
CUHK	5,750	400	–	11,363 (FT) 4,200 (PT)
HKU	3,625	900 (Note 2)	–	11,774 (FT)
HKUST	3,258	527 (Note 3)	–	6,671 (FT)
PolyU	3,004	–	–	11,473 (FT)
HKIEd	1,927	–	–	3,266 (FT) 3,696 (PT)
HKBU	1,634	–	–	5,595 (FT) 43 (PT)
LU	1,500	–	–	2,183 (FT)
CityU	999	1,401 (Note 4)	655 (Note 4)	7,445 (FT)
Total	<u>21,697</u>	<u>3,228</u>	<u>655</u>	<u>59,770 (FT)</u> <u>7,939 (PT)</u>

Source: Institutions' records

Note 1: These were the total number of students who were eligible for hostel places. For CityU, only full-time undergraduate and research postgraduate students were eligible. For the HKBU, the LU, the PolyU, the HKUST and the HKU, all full-time students were eligible. In addition, for the HKBU, part-time research postgraduate students might also apply for hostel places. For the CUHK, all full-time students and part-time postgraduate students were eligible. For the HKIEd, both full-time and part-time students were eligible, but full-time students normally had priority over part-time students.

Note 2: The HKU had a project under construction at an estimated cost of \$322 million. It would provide 900 places upon completion in early 2005.

Note 3: The HKUST had a project under construction for the provision of 527 places at an estimated cost of \$133 million. The project was expected to be completed in 2003.

Note 4: CityU's new student hostel project was made up of three phases. Phase I (providing 818 places) was completed in June 2002 at a cost of \$368 million. Phase II (providing 1,401 places) would be completed in August 2003 at an estimated cost of \$492 million. Phase III (providing 655 places) would be completed in September 2004 at an estimated cost of \$181 million.

Policy on fee charging of student hostels

5.5 The government policy is that the institutions are required to operate the student hostels on a self-financing basis. That is, the hostel fee should recover the recurrent operating costs of the student hostels, which consist mainly of staff costs, security and maintenance costs and the costs of miscellaneous items such as electricity, telephone, water, cleaning and laundry. The fees varied among the institutions. For 2002-03, the monthly fee per hostel place ranged from \$776 to \$3,060 (Note 10), and the average was \$1,200.

Admission to student hostels

5.6 A hostel's residential year, in general, commences one week before the start of the first semester and terminates one week before or after the closing date of the second semester in the following year (Note 11). Hostel admission is usually for only one residential year. Student residents who would like to stay on for the next residential year should apply for re-admission in the following year. Hostel admission is conducted in two rounds:

- (a) Round I is held in March/April each year, for current postgraduate students and undergraduate students; and
- (b) Round II is held in August, for newly admitted students.

Overall vacancy of student hostels

5.7 As at 31 October 2002, of the 21,697 available hostel places (see Table 11 in para. 5.4 above), 1,821 (or 8.4%) were vacant. According to Audit's estimate, the total loss of hostel fees of these vacant places could amount to \$2.2 million per month. Table 12 below shows the distribution of the vacant hostel places by institutions.

Note 10: *The monthly fee of \$3,060 was for a room in the Postgraduate Hall in the CUHK. This Hall was built by the CUHK's own funding and the hostel fee included recovery of the capital costs. This Hall is used to accommodate postgraduate students including full-time and part-time students.*

Note 11: *The duration of a residential year varies slightly among different institutions, which covers a period of nine to ten months (from August to June). For CityU, the HKBU, the LU, the CUHK and the HKUST, the duration is about nine months. For the HKIEd, the PolyU and the HKU, the duration is about ten months.*

Table 12

**Vacant student hostel places
of the eight institutions as at 31 October 2002**

Institution	Total available places	Number of vacant places	Percentage of vacant places	Estimated loss of hostel fees for vacant places for each month (Note)
	(a)	(b)	(c) = $\frac{(b)}{(a)} \times 100\%$	(d)
			(%)	(\$'000)
PolyU	3,004	1,092	36.4	1,267
HKBU	1,634	283	17.3	318
CUHK	5,750	171	3.0	269
HKIEd	1,927	122	6.3	109
HKUST	3,258	27	0.8	101
HKU	3,625	110	3.0	97
CityU	999	11	1.1	21
LU	1,500	5	0.3	5
Overall	21,697	1,821	8.4	2,187

Source: Institutions' records

Note: The estimated loss of hostel fees was calculated based on the hostel fees charged multiplied by the number of vacant places of the respective institutions.

5.8 It can be seen from Table 12 above that five institutions had more than 100 vacant places each. For these five institutions, Audit's findings are reported below:

- (a) the PolyU (see paras. 5.9 to 5.12);
- (b) the HKBU (see paras. 5.13 to 5.17);

- (c) the CUHK (see paras. 5.18 and 5.19);
- (d) the HKIEd (see paras. 5.20 and 5.21); and
- (e) the HKU (see paras. 5.22 and 5.23).

Vacant hostel places at the PolyU

5.9 **Background.** Before the implementation of the new policy on student hostels, the PolyU had no student hostel places. In 1999, the PolyU commenced the construction of a student hostel project in the Hung Hom Bay reclamation area to provide for 3,004 hostel places, which would meet the target provision of hostel places for the PolyU in full. The project was completed in May 2002 at a construction cost of \$580 million (Note 12). For each hostel place, the construction cost, on average, was about \$193,000.

5.10 **Hostel residence survey.** In mid-2002, the PolyU carried out its first round of hostel admission exercise. Initially, there were over 3,000 applications for residence. However, only 790 applicants subsequently accepted the offer of hostel places. Through a survey company, in July 2002, the PolyU conducted a telephone survey of 400 students (including 200 students who did not apply for hostel residence) to ascertain the reasons for the unsatisfactory take-up rate. The main findings of the survey were as follows:

- (a) 55% of the respondents considered that the hostel fee was too high;
- (b) 50% of the respondents said that they were living very close to the PolyU;
- (c) 18% of the respondents considered that transportation to the PolyU was convenient; and
- (d) 80% of the respondents considered that lowering the hostel fee would attract students to apply for residence.

5.11 **Promotional efforts.** Following the survey, in July 2002, the PolyU made more promotional efforts to attract students to apply for hostel residence. In addition, in early August 2002, the PolyU implemented a Hall Resident Service Award Scheme. Under this scheme,

Note 12: *The total project expenditure amounted to about \$580 million, of which 75% (or \$435 million) was met by government subventions.*

students residing in the hostel are awarded one-day hostel residence free of charge for every hour of voluntary service performed, up to a maximum of 30 days.

5.12 **Vacancy position.** By 31 October 2002, the number of students who took up hostel residence at the PolyU had increased from 790 (position as at mid-2002) to 1,912. However, 1,092 places (or 36.4% of the available places) were still vacant. The estimated loss of hostel fees of the vacant hostel places was \$1.3 million a month. Based on the total construction cost, the cost of the vacant places was \$211 million ($\$580 \text{ million} \times 36.4\%$).

Vacant hostel places at the HKBU

5.13 **Background.** Similar to the PolyU, the HKBU had no student hostel places before the implementation of the new government policy on student hostels. In September 2000, the HKBU commenced the construction of a student hostel project at a site on the Baptist University Road to provide for 1,634 hostel places, which would meet the target provision of hostel places for the HKBU in full. The project was completed in February 2002 at a construction cost of \$278 million (Note 13). For each hostel place, on average, the construction cost was about \$170,000.

5.14 **Intake for 2001-02.** The first intake of residents for the second semester of 2001-02 commenced in early March 2002 for a partial semester. However, the enrolment rate was lower than expected. The first batch of student residents took up only 758 hostel places, or about 46% of the available places. To increase the occupancy rate of the student hostels, the HKBU Hall Management continued to admit student residents throughout the lodging period and encourage students to apply for hostel places. Towards the end of the lodging period in May 2002, the total number of student residents was 927, i.e. 57% of the available places.

5.15 **Intake for 2002-03.** In May 2002, applications for admission to the student hostels were invited from full-time undergraduate and research postgraduate students for 2002-03. By mid-August 2002, the total number of successful applications was about 673, i.e. about 41% of the available places. The second round of application for admission started in late August 2002. The target group was Year One undergraduates. Applications for admission were also extended to students of associate degree programmes. As at early September 2002, the total number of successful applications was about 1,268, i.e. about 78% of the available places.

5.16 **Promotional efforts.** In view of the low occupancy rate, the HKBU made more promotional efforts to encourage students to apply for hostel residence. These included extending the admission to include associate degree students and continual acceptance of late applications.

Note 13: *The total project expenditure as at 31 October 2002 amounted to about \$278 million, of which 74.5% (or \$207 million) was met by government subventions.*

5.17 **Vacancy position.** By 31 October 2002, the number of students who took up hostel residence at the HKBU had increased from 673 (position as at mid-August 2002) to 1,351. Despite the HKBU's promotional efforts, 283 places (or 17.3% of the available places) were still vacant. The estimated loss of hostel fees of the vacant hostel places was \$318,000 a month. Based on the total construction cost, the cost of the vacant places was \$48 million (\$278 million × 17.3%).

Vacant hostel places at the CUHK

5.18 **Background.** The CUHK has a long tradition of providing hostel places for its students. Due to historical reasons (i.e. the longer travelling time then experienced by students), the provision of hostel places for the CUHK has been pitched at a higher level than that of the other institutions. As at 31 October 2002, the CUHK had 5,750 student hostel places within its campus.

5.19 **Vacancy position.** As at 31 October 2002, there were 171 vacant places. Of these vacant places, 93 (or 54.4%) were in the Postgraduate Hall, which charged a higher hostel fee than that of the student hostels provided for undergraduates. While the 171 vacant places represented only 3% of the available places, in Audit's view, it warrants attention because:

- (a) according to Audit's estimates, the loss of hostel fees of these 171 vacant places could amount to \$269,000 a month; and
- (b) there were two new hostel projects under construction that would provide 400 additional places in the near future (100 places in 2003 and 300 places in 2004 — Note 14). Therefore, the vacancy position could worsen upon the completion of these projects.

Vacant hostel places at the HKIEd

5.20 **Background.** As at 31 October 2002, the HKIEd had 1,927 student hostel places located in four hostels (known as Hostel A, Hostel B, Hostel C and the Jockey Club Student Quarters) inside its campus. Unlike the other three hostels that were purpose-built, the Jockey Club Student Quarters were converted from 64 former SSQ in mid-2001.

Note 14: *The CUHK had two hostel projects under construction. One was the Chan Chun Ha Hostel for the United College which would provide 300 hostel places. The construction works, which commenced in August 2000, were expected to be completed in early 2004. The other was the Extension to Madam S. H. Ho Hostel at the Prince of Wales Hospital which would provide 100 hostel places for medical students. The construction works, which commenced in early 2000, were expected to be completed in the first quarter of 2003. The total construction costs of these two projects would be about \$94 million and \$30 million respectively.*

5.21 ***Vacancy position.*** As at 31 October 2002, there were 122 vacant places representing 6.3% of the available places. Of these vacant places, 80 (or 65.6%) were in the Jockey Club Student Quarters (Note 15), which had a vacancy rate of 16% compared with only 3% of the other three hostels. According to Audit's estimates, the loss of hostel fees of the 122 vacant places could amount to \$109,000 a month.

Vacant hostel places at the HKU

5.22 ***Background.*** The HKU has a long tradition of providing hostel places for its students. As at 31 October 2002, the HKU had 3,625 student hostel places in 13 hostels within the HKU's campus. Each hostel has the discretion, based on its own admission criteria, to determine which students should be accepted for residence. It can take a long time for the admission process to be completed. Overall, there is a long waiting list of students for hostel places.

5.23 ***Vacancy position.*** As at 31 October 2002, the HKU had 110 vacant student hostel places. While the vacant places represented only 3% of the available places, in Audit's view, it warranted attention because there was a long list of students waiting for hostel places. Leaving 110 places vacant was undesirable. According to Audit's estimates, the loss of hostel fees of these 110 vacant places could amount to \$97,000 a month.

Audit observations on the vacant student hostel places at the institutions

5.24 ***Vacant hostel places are undesirable.*** Student hostel places are valuable assets. For example, it cost \$580 million and \$278 million to construct the PolyU's and HKBU's student hostels respectively. The construction cost per hostel place amounted to \$193,000 (see para. 5.9 above) for the PolyU and \$170,000 for the HKBU (see para. 5.13 above). On this basis, the cost of the vacant hostel places was \$211 million (see para. 5.12 above) and \$48 million (see para. 5.17 above) for the PolyU and the HKBU respectively.

5.25 ***Government's efforts to foster hostel life.*** In addition to the construction cost, there is the opportunity cost of the land on which the hostels were built. The total cost of a student hostel is therefore considerable. The investment in building student hostels reflects the Government's efforts to enhance the quality of university education by fostering hostel life (see para. 5.2 above). A high level of vacant hostel places could adversely affect the effectiveness of fostering hostel life. There is also the question of the loss of substantial amounts of hostel fees. The significant number of vacant hostel places warrants proactive action by the institutions concerned.

Note 15: *Student residents of the Jockey Club Student Quarters had to pay utility charges for the units they occupied. In return, they were given a 5% discount on the normal hostel fee charges. For the other three hostels, utility charges were included in the hostel fees and the students did not have to pay for the utility charges separately.*

5.26 *Not all students wanted to reside in hostels.* The results of the PolyU's survey (see para. 5.10 above) indicated that students did not take up the hostel places due mainly to the following reasons:

- (a) they lived near the campus or transportation was convenient. Therefore, they did not consider that there was a need to live in the student hostel; and/or
- (b) they considered that the hostel fee was too high.

5.27 *Need to promote the importance of hostel life.* With regard to paragraph 5.26(a) above, the students' responses suggested that they might not fully appreciate the importance of hostel life, in terms of enhancing the quality of university education. This could be a common perception among students of those institutions (e.g. PolyU, HKBU and CityU) where the provision of student hostels is a relatively new initiative, and where a strong culture of hostel life has yet to develop. **Audit considers that there is a need for the institutions concerned to take measures to address this issue. For example, promotional campaigns may need to be conducted on a regular basis to enhance students' understanding of the educational objective of hostel life.**

5.28 *Need to reduce operating costs.* With regard to paragraph 5.26(b) above, given the self-financing policy, the level of hostel fee has to be determined having regard to the recurrent operating costs of the student hostels. **Audit considers that there is a need for the institutions to set cost reduction targets, and to critically review the operating costs of the hostels in order to identify possible cost savings.** Measures that need to be explored include increasing the extent of outsourcing, and employing part-time student helpers for cleansing and housekeeping duties. There is also a need to seek additional income opportunities, such as admitting part-time students to the hostels. Such additional incomes can be used to meet part of the operating costs.

Audit recommendations on the vacant student hostel places at the institutions

5.29 **In order to improve the occupancy rates of the student hostels, Audit has recommended that the institutions should:**

- (a) **in cases where the provision of student hostels is a relatively new initiative, take appropriate measures (e.g. regular promotional campaigns) to foster a strong culture of hostel life and to enhance students' understanding of the educational objective of hostel life;**
- (b) **in doing so, draw on the experiences of those institutions that have a long tradition of providing student hostel places;**

- (c) **set targets for reducing the operating costs of the student hostels with a view to reducing the hostel fee to a more attractive level;**
- (d) **critically review the operating costs of the student hostels to identify possible cost reduction measures (e.g. increasing the extent of outsourcing); and**
- (e) **seek additional income opportunities (e.g. admitting part-time students to the hostels) to meet part of the operating costs of the student hostels.**

Response from the Administration and the institutions

5.30 The **Secretary for Education and Manpower** agrees with the audit recommendations. He has said that:

- (a) the Government endorsed the current hostel policy in 1996 and considers that hostel life is an essential part of higher education in providing students with an environment conducive to learning and allowing greater social interaction which enriches personal development as well as the learning experience generally; and
- (b) the institutions, in particular where the provision of student hostels is a relatively new initiative, should make an effort to foster a strong culture of hostel life and enhance students' understanding that the provision of hostels is not solely a means to shorten their daily travel time, but also bears its own educational objective.

5.31 The **Secretary-General, University Grants Committee** agrees with the audit recommendations. He has said that:

- (a) the level of provision of student hostels to institutions was calculated using a set of criteria under the government policy approved in 1996, in recognition of hostel life being an integral part of higher education. No new student hostel project is now under active planning. Any further proposals to construct new student hostels will be examined critically; and
- (b) the UGC welcomes Audit's observations and recommendations that institutions should make every effort to enhance the occupancy rates and reduce the operating costs of their student hostels. Whilst taking note of the relatively low occupancy rates of the PolyU and the HKBU, where the provision of student hostels is a relatively new initiative, the

UGC appreciates that the institutions concerned have been making their best efforts to encourage and attract students to apply for hostel residence and that the current economic situation might have an impact on the student's ability to pay rent.

5.32 **The President and Vice-Chancellor, Hong Kong Baptist University** has said that:

- (a) as regards student hostels, the HKBU sees no difficulty with taking up the audit recommendations, especially since the UGC requires that the student hostel operation should be self-financing; and
- (b) the HKBU wishes to comment that the method of estimating the loss of hostel fees (see Table 12 in para. 5.7 above) by simply multiplying the number of vacant places by the fees charged may not be entirely appropriate, since there is no market benchmark for the hostel fees. If indeed the audit suggestion of lowering the fees to attract more residents really works, then the estimated loss could be reduced immediately. Furthermore, the vacancy reported in Table 12 is based on one snapshot in time rather than over an extended period of time, and it is also impracticable to target at a 100% occupancy since allowance must be made for some downtime due to various reasons such as repair and maintenance works. Finally, while the HKBU accepts that the loss of hostel fees arising from the vacant places is a key issue requiring attention and action, the HKBU does not see the relevance of bringing up the point of the construction cost of each vacant place under paragraph 5.17 above.

5.33 **The President, Lingnan University** agrees with the audit recommendations on the vacant student hostel places.

5.34 **The Vice-Chancellor, The Chinese University of Hong Kong** has said that:

- (a) the CUHK will continue to explore opportunities of reducing the costs of operation, including outsourcing of cleaning services, etc. However, since the CUHK has a longer history of providing student hostels, some of the hostel buildings are getting quite old and in need of annual maintenance and repairs. Some of these costs need to be recovered in the hostel fees. Since August 2001, the CUHK has managed to keep the hostel charges at a reasonable level, without any fee increase; and
- (b) the present vacancy rate of less than 3% is considered acceptable. Since overbooking of the hostel places at the beginning of a term is not practical, the vacancy arises from late cancellation or withdrawals. There will be backfilling during the term, with applications on waiting list. Part-time students can also be accommodated, if the need arises.

5.35 **The President, The Hong Kong Institute of Education** has said that:

- (a) the 1,927 available places are able to accommodate 59% of the HKIED's full-time students, a comparatively high percentage among the institutions. As at 31 October 2002, the hostels were able to attract 55% of full-time students, leaving 122 vacant places or 6.3% of the total available places. Unlike students in the other institutions, the HKIED students have to spend four to eight weeks during term time to do teaching practice in schools which are located all over Hong Kong. This has resulted in the high possibility of having to travel a long way from the student hostels to the teaching practice schools, and has considerable influence over the students' decision to live in hostels. Furthermore, despite the fact that some students might stay at homes during the period of their teaching practice in order to cut down the travel time, they are still required to pay for staying in the hostels on the basis of a whole academic year;
- (b) such notwithstanding, the HKIED will continue its efforts in enhancing students' understanding of the educational objectives of hostel life and the development of hostel culture. The HKIED will also continue to increase its efforts to promote the use of hostels by part-time students and external organisations throughout the year; and
- (c) the HKIED will review, in consultation with student hostel residents, the costs of operating and the income (including the hostel fee level) needed to operate the hostels on a self-financing basis.

5.36 **The President, The Hong Kong Polytechnic University** has said that having regard to the current economic situation and that the student hostels are in their first year of operation, the PolyU has been fully aware of the underlying reasons for the current occupancy rates. In addition to its well received Hall Resident Service Award Scheme, the PolyU will continue its efforts to promote the importance of hostel life and take appropriate measures to improve the occupancy rate, which has increased substantially during the year. To ensure the financial viability of the student hostel operation with hostel fees at an attractive level, the PolyU will also continue its efforts to review the operating costs, implement cost reduction measures and admit more occupants.

5.37 **The President, The Hong Kong University of Science and Technology** has said that the percentage of vacant hostel places at the HKUST is very low, and the audit recommendations on vacant hostel places are not therefore immediately relevant. They will, however, continue to monitor the vacancy position very closely to ensure that the occupancy level remains high.

5.38 **The Vice-Chancellor, The University of Hong Kong** has said that:

- (a) the existing student hostel admission policy of the HKU is that 70% of the total hostel places are allocated to applicants with need, based on a point system, and the other 30% are reserved for postgraduates, non-local students and other students admitted at the wardens' discretion. Admission of student residents is conducted in two rounds, Round I in April and Round II in August. The purpose of this arrangement is to satisfy the different needs of current and new students. The admission system has been reviewed by the Working Group on Hall Education, which was formed in December 2000 to re-examine and re-appraise the whole philosophy of hall education, and proposals for further enhancement are currently under consideration and discussion;
- (b) it is the HKU's policy that hostels must continue to admit students if there are vacancies, and the Office of Student Affairs acts as a clearing house for late applications to ensure that hostel vacancies are filled as soon as possible. The HKU is of the view that the vacancy position taken in early October 2002 is not an accurate indicator for the whole residential year, as, from experience, it is a norm that more students would withdraw from their hostels at the beginning of the school year due to various reasons than the rest of the year;
- (c) the HKU regards hostel life to be an essential element for student development and a very important element of holistic education, both in the past and even more so in the future — what is learned inside the classroom (via the formal curriculum) is inextricably bound up with, and influenced by, the learning which takes place outside the classroom; and
- (d) established in December 2000, the Working Group on Hall Education has re-examined and re-appraised the whole philosophy of hostel education, and the audit recommendations on improving operating effectiveness are amongst the areas now being addressed.

Use of student hostels during the summer vacation period

5.39 The residential year of hostels lasts for nine to ten months. It does not include the summer vacation period that falls within June to August. In general, most student residents move out of the student hostels during that period. Those who do not move out will have to pay rent for the period. Some institutions charge rent at the same level as the normal hostel fee. Others charge a higher rent.

5.40 All the institutions allow the letting out of some hostel places during this period to outside organisations, including educational, charitable, or other public organisations. Table 13 below shows the occupancy rates of the student hostels of the eight institutions during the summer vacation period June to August 2002.

Table 13

**Occupancy rates of student hostels
during the summer vacation period June to August 2002**

Institution	Occupancy rate
	(%)
PolyU (Note 1)	N.A.
HKIEd (Note 2)	19
LU	24
HKBU	27
CUHK	44
HKUST	57
HKU	60
CityU (Note 3)	67

Source: Institutions' records

Note 1: For the PolyU, the student hostel project was only completed in May 2002.

Note 2: The residential year of the HKIEd hostels lasted for ten months. The period available in 2002 for summer letting was only 51 days (from 28 June 2002 to 17 August 2002) and covered only a few weekends.

Note 3: For CityU, the occupancy rate was in respect of 181 hostel places for exchange students and research postgraduate students.

Audit observations on the use of student hostels during the summer vacation period

5.41 As shown in Table 13 above, the occupancy rates of student hostels during the summer vacation period varied among the eight institutions. For some of them, the occupancy rates were rather low, i.e. below 50%. These include the HKIEd (occupancy rate: 19%), the LU (24%), the HKBU (27%) and the CUHK (44%). **Audit considers that there is scope for improving the occupancy rates of the student hostels during the summer vacation period by making further promotional efforts, particularly for those institutions with a relatively low occupancy rate.** Additional fee income arising from improved occupancy during this period can be used to meet part of the operating costs of the student hostels, thereby giving room for reducing the hostel fees during the residential year.

Audit recommendations on the use of student hostels during the summer vacation period

5.42 **Audit has recommended that the institutions should:**

- (a) **closely monitor the occupancy rates of student hostels during the summer vacation period; and**
- (b) **take appropriate measures (e.g. increasing promotional efforts to attract patronage) to improve occupancy during the summer vacation period and, in doing so, draw on the experiences of those institutions that have a better occupancy rate.**

Response from the Administration and the institutions

5.43 The **President, City University of Hong Kong** has said that time should be allowed for maintenance and major overhauls during the summer vacation period.

5.44 The **President and Vice-Chancellor, Hong Kong Baptist University** has said that the HKBU sees no difficulty with taking up the audit recommendations.

5.45 The **President, Lingnan University** in general agrees with the audit recommendations on the use of the student hostels during the summer vacation period. He has said that it should be noted that each year during the summer vacation, a certain period of time is needed for the cleaning, the repairs and maintenance, the re-painting, and major overhauling of the student hostels. For example, summer letting for the major portion of the student hostels was not possible

for most of June and August 2002, because of the major repair works to the lavatories and showers, and the replacement of the window-type air-conditioners of the hostel rooms.

5.46 The **Vice-Chancellor, The Chinese University of Hong Kong** has said that:

- (a) due to the ageing of the student hostel buildings, there is a need for annual maintenance and repairs. The best time to carry out these renovations is the summer vacation period, when almost all students have returned home; and
- (b) where the hostels are available during such period, they have been rented out to youth camps and leadership training programmes of the communities.

5.47 The **President, The Hong Kong Institute of Education** has said that the HKIEd will continue to put in efforts to improve the occupancy rate of student hostels. These include marketing the availability of student hostels for letting to the school community and external organisations, introducing package booking of hostel and sports facilities, initiating collaboration with external groups on summer camps and facilitating the recruitment of student helpers for the clients, etc.

5.48 The **President, The Hong Kong Polytechnic University** has said that apart from allowing time for necessary maintenance and overhaul, the PolyU will be taking measures to optimise the utilisation of student hostels during the summer.

5.49 The **Vice-Chancellor, The University of Hong Kong** has said that a major refurbishment project was carried out at the Swire Hall in the summer of 2002. The non-availability of this Hall affected the overall summer occupancy rate of the HKU. The HKU is considering a number of measures to further improve the occupancy rate of student hostels in the summer, including organising summer hall programmes for students who are not residents during the residential year, introduction of special programmes with the Mainland China and overseas universities and secondary schools.

PART 6: ENERGY MANAGEMENT

6.1 This PART examines how the institutions manage the consumption of electricity.

Electricity consumption of institutions

6.2 The bulk of the energy consumed by the institutions in Hong Kong is electricity. The electricity consumption, in terms of kilowatt-hours (kWh), of the institutions in 2001-02 is as follows:

Institution	Electricity consumption	Electricity charge
	(’000 kWh)	(\$’000)
HKU	97,112	97,508
CUHK	85,603	66,050
PolyU	68,641	56,794
HKUST	67,041	51,107
CityU	59,839	47,406
HKBU	29,035	24,720
HKIEd	26,833	22,976
LU	12,417	11,074

Source: Institutions’ records

6.3 There are two electricity suppliers (Companies A and B) in Hong Kong. Company A supplies electricity to Hong Kong Island and the neighbouring islands of Ap Lei Chau and Lamma. Company B supplies electricity to Kowloon and the New Territories, including Lantau and several outlying islands. The two companies are investor-owned and have different tariff structures.

Tariff structures

The tariff structure of Company A

6.4 Company A offers two tariffs to its non-domestic customers, namely:

Block-rate tariff. The rate for each electricity unit (kWh) consumed is \$0.996 for the first 1,500 kWh and \$1.076 thereafter; and

Maximum demand tariff. The maximum demand tariff is only available to high electricity consumption accounts that consume at least 26,500 kWh a month, with electricity rates ranging from \$0.886 to \$0.934 for each unit. Compared to the block-rate tariff, the unit rate of the maximum demand tariff is about 6% lower [$(\$0.996 - \$0.934) \div \$0.996$]. However, the maximum demand tariff is subject to a demand charge based on the maximum electricity demand in the month measured by kilovolt-amperes (kVA). The current demand charge of Company A ranges from \$37.3 to \$39.3 per kVA.

6.5 According to the information provided by Company A to its customers, the maximum demand tariff is only beneficial to customers with high load factor for their installations. Customers using block-rate tariff would need to conduct an analysis to estimate the maximum electricity demand of their accounts in order to ascertain whether it is beneficial for them to change the tariff to the maximum demand tariff.

The tariff structure of Company B

6.6 Company B, on the other hand, offers three different tariffs to its non-domestic customers, namely:

General service tariff. The electricity rate for each unit consumed is \$0.968 for the first 5,000 units and \$0.958 thereafter;

Bulk tariff. The bulk tariff offers a lower range of unit rates from \$0.619 to \$0.694. Compared to the general service tariff, the bulk tariff offers a discount of about 28% [$(\$0.958 - \$0.694) \div 0.958$]; and

Large power tariff. This is the lowest tariff offered to very high consumption customers. Unit rates range from \$0.434 to \$0.529. Compared to the general service tariff, the large power tariff offers a discount of about 45% [$(\$0.958 - \$0.529) \div \$0.958$].

6.7 Accounts using the bulk and large power tariffs are subject to a demand charge based on the maximum electricity demand measured by kVA. However, kVA information is only available to bulk and large power tariff customers. Customers using general service tariff are not provided with kVA information. Therefore, in order to ascertain whether it is financially beneficial to change the general service tariff to the bulk or large power tariffs, customers would have to conduct an analysis of their electricity consumption to ascertain the maximum electricity demand of their accounts.

6.8 According to the information provided by Company B to its customers, electricity accounts with a monthly consumption of 20,000 kWh or more would benefit from the lower unit rate by using the bulk tariff. Very high consumption accounts, with a monthly peak demand of 3,000 kVA or more, could choose the large power tariff to enjoy the lowest unit rate.

Audit review of major electricity accounts of institutions

6.9 To ascertain whether the institutions were using the most economical tariff, Audit reviewed the electricity consumption patterns of all major accounts of the eight institutions in 2001-02. Details of the audit findings are summarised in paragraphs 6.10 to 6.29 below.

CUHK has combined all its electricity accounts

6.10 The CUHK merged all its electricity accounts into one single account some ten years ago. As a result, this single account has recorded very high electricity consumption. This enables the CUHK to benefit from the lowest electricity unit rate (i.e. the large power tariff offered by Company B).

Tariffs used by other institutions

CityU

6.11 Audit examined the consumption pattern of CityU's 42 electricity accounts in 2001-02. Audit noted that two high consumption accounts were using the general service tariff. Details are shown in Table 14 below.

Table 14

**CityU's two high consumption electricity accounts
using the general service tariff**

Account location	Average monthly electricity charges in 2001-02	Monthly electricity consumption range
	(\$)	(kWh)
Tak Chee Yuen	28,656	25,510 — 35,010
Telford Garden	24,015	18,150 — 33,140

Source: CityU's records

6.12 Given that the monthly consumption of these two accounts had exceeded or was very close to the threshold of 20,000 kWh per month, **Audit considers that these two accounts could benefit from the lower electricity unit rate offered by the bulk tariff. As the accounts concerned were general service tariff accounts, no kVA information was available (see para. 6.7 above) for estimating the potential savings. It is also not known whether further saving could be achieved by using the large power tariff which offers the lowest unit rate.**

HKBU

6.13 The HKBU had six electricity accounts with Company B. Five were high consumption accounts using the bulk tariff and one was a low consumption account using the general service tariff. Audit reviewed the consumption pattern of the five bulk tariff accounts and noted that the Ho Sin Hang (HSH) Campus account was the highest consumption account which could benefit from the lowest unit rate offered by the large power tariff. **Audit noted that the HKBU could have saved \$415,000 (see Appendix C) in electricity charges in 2001-02 if it had used the large power tariff for the HSH Campus.**

6.14 In September 2002, Audit conveyed the above finding to the HKBU. The HKBU accepted the audit finding. It informed Audit that the tariff of the HSH Campus account would be changed to the large power tariff in April 2003 before the next summer seasons.

LU

6.15 The LU had three electricity accounts with Company B for its main campus. Of the three accounts, two were high consumption accounts. Details of these two accounts are summarised in Table 15 below.

Table 15

LU's two electricity accounts with high consumption in 2001-02

Account	Electricity charges	Tariff selected	Monthly consumption range
	(\$)		(kWh)
Main account	\$9,966,000	Bulk	653,392 — 1,191,782
Hostels	\$1,088,000	General service	64,530 — 152,030

Source: LU's records

6.16 Audit analysed the consumption pattern of the LU's main account. Audit noted that the bulk tariff was the most economical tariff for this account. **In respect of the hostel account that used the general service tariff, as the monthly consumption substantially exceeded the 20,000 kWh threshold, Audit considers that this account could benefit from the lower electricity unit rate of the bulk tariff. As no kVA information was available, Audit could not estimate the potential savings and carry out further analysis.**

HKIED

6.17 The HKIED campus had five electricity accounts with Company B in 2001-02. The consumption pattern of these five accounts in 2001-02 is shown in Table 16 below.

Table 16

Electricity consumption pattern of HKIEd's five accounts in 2001-02

Account	Monthly consumption range (kWh)	Monthly peak demand (kVA)	Annual electricity charges (\$)	Tariff selected
(1) Main account	1,360,270 — 2,578,129	3,270 — 6,930	19,585,332	Bulk tariff
(2) Hostel A	71,740 — 106,230	N.A.	1,001,337	General service tariff
(3) Hostel B	73,310 — 107,730	N.A.	1,016,866	General service tariff
(4) Hostel C	67,470 — 100,540	N.A.	942,492	General service tariff
(5) Staff Quarters	31,620 — 42,890	N.A.	429,727	General service tariff
		Total	<u>22,975,754</u>	

Source: HKIEd's records

6.18 Regarding the main account that used the bulk tariff, Audit noted that in 2001-02, the monthly peak demand ranged from 3,270 to 6,930 kVA. According to the information provided by Company B to its customers, accounts with monthly peak demand that exceeded 3,000 kVA could choose the large power tariff to enjoy the lowest electricity unit rate (see para. 6.8 above). Had this been done, **Audit estimated that the HKIEd could have reduced its electricity charges by about \$323,000 in 2001-02 (see Appendix D).**

6.19 Regarding the other four accounts that used the general service tariff (i.e. Accounts (2) to (5) in Table 16 above), as all their monthly electricity consumption substantially exceeded the 20,000 kWh threshold, the bulk tariff should have been used. As

no kVA information was available, Audit could not quantify the potential savings (see para. 6.12 above).

PolyU

6.20 The PolyU had over 100 electricity accounts with Company B in 2001-02. Among these accounts, four were high consumption accounts. Details of these four accounts are shown in Table 17 below.

Table 17

PolyU's four electricity accounts with high consumption in 2001-02

Account	Consumption	Charges	Tariff selected
	(kWh)	(\$)	
(1) Phases 1 to 5 and Industrial Centre	59,334,000	48,265,000	Large power tariff
(2) Phase 6	6,032,000	5,332,000	Bulk tariff
(3) Public services	427,000	414,000	Bulk tariff
(4) Auditorium	1,201,000	1,136,000	Bulk tariff
Total	<u>66,994,000</u>	<u>55,147,000</u>	

Source: PolyU's records

6.21 Audit analysed the consumption pattern of the three bulk tariff accounts (i.e. Accounts (2) to (4) in Table 17 above) for 2001-02. The monthly peak electricity demand of these three accounts in 2001-02 was below the 3,000 kVA threshold. It might not have been beneficial to use the large power tariff.

6.22 In July 2002, the PolyU combined the three bulk tariff accounts (i.e. Accounts (2) to (4) in Table 17 above) to form a new account. Bulk tariff was again chosen for this new account. In response to Audit enquiry, the PolyU said that it would monitor the monthly electricity consumption pattern of the new account and would consider changing to the large power tariff if the monthly peak demand of the new account consistently exceeded 3,000 kVA.

HKUST

6.23 The HKUST had 22 electricity accounts with Company B. Audit examined the electricity consumption patterns of these accounts in 2001-02, and noted that one of the accounts using the general service tariff was a high electricity consumption account. Details of the electricity consumption of the account are as follows:

Total electricity charges:	\$541,400
Actual monthly electricity consumption:	29,116 to 59,075 kWh

6.24 According to the information provided by Company B to its customers, accounts with a minimum monthly consumption of 20,000 kWh could benefit from the lower electricity unit rate offered by the bulk tariff (see para. 6.8 above). **As no kVA information was available, Audit could not estimate the potential savings and carry out further analysis.**

HKU

6.25 In 2001-02, the HKU paid \$97.5 million electricity charges, which was the highest amount among the institutions (see para. 6.2 above). Audit noted that the HKU had 108 electricity accounts with Company A that used block-rate tariff as at 30 June 2002. Audit reviewed the electricity consumption patterns of all these 108 accounts. Audit noted that of these 108 accounts, eight were high consumption accounts which could benefit from the lowest unit rate of the maximum demand tariff offered by Company A (see para. 6.4 above). Audit estimated that, based on the electricity consumption in 2001-02, savings of \$326,000 could have been achieved if the maximum demand tariff had been used, as shown in Table 18 below.

Table 18

Savings the HKU could achieve if the maximum demand tariff had been used for the eight high consumption accounts

Account	Average monthly consumption in 2001-02	Estimated monthly charges under maximum demand tariff (Note 1)	Actual average monthly charges under block-rate tariff	Estimated monthly savings
(a)	(b) (kWh)	(c) (\$)	(d) (\$)	(e) = (d) - (c) (\$)
1. Faculty of Medicine Building TX 1 (Note 2)	108,755	115,279	116,660	1,381
2. Faculty of Medicine Building TX 2 (Note 2)	223,307	234,801	239,501	4,700
3. Faculty of Medicine Building TX 3 (Note 2)	145,345	153,725	155,956	2,231
4. Faculty of Medicine Building TX 4 (Note 2)	246,265	255,934	264,068	8,134
5. Composite Building (G/F — Roof)	77,636	77,217	80,212	2,995
6. Composite Building (1-5/F, LG 1-2/F Car park)	74,118	73,268	76,725	3,457
7. Lady Ho Tung Hall and Ho Tim Hall (Note 3)	124,202	128,103	129,212	1,109
8. Tsui Tsin Tong Building Cable Box No. 3	88,848	88,745	91,867	3,122
				27,129
				Projected annual savings: \$27,129 × 12 months
				= \$325,548
				(Say \$326,000)

Source: Audit analysis based on the HKU's records

Note 1: The estimated annual charges were calculated based on the tariff which became effective as from 1 January 2002.

Note 2: The Faculty of Medicine Building was completed in late 2001. These four electricity accounts commenced operation in December 2001.

Note 3: This account commenced operation in August 2001.

6.26 Audit conveyed the above findings to the HKU in September 2002. In response, the HKU informed Audit that they had changed the four accounts at the Faculty of Medicine Building (highlighted in Table 18 above) to maximum demand tariff in August 2002.

6.27 Regarding the other accounts in Table 18 above, the HKU informed Audit in March 2003 that it commenced changing the tariff to the maximum demand tariff in October 2002 and completed the change in February 2003.

Audit observations on the monitoring of electricity tariff

6.28 Audit also noted that some institutions had not selected the most economical tariff for some of their accounts. In some cases, the information of electricity demand measured in kVA (see paras. 6.5 and 6.7 above) was not readily available for assessing the potential savings which could be achieved by selecting the lowest tariff available from the power companies.

Audit recommendations on the monitoring of electricity tariff

6.29 **Audit has *recommended* that the institutions should:**

- (a) **select the most economical tariffs available for their electricity accounts;**
- (b) **for accounts with no information on kVA, conduct an analysis to ascertain the kVA so as to enable them to select the most economical tariff; and**
- (c) **regularly monitor the electricity consumption pattern of their electricity accounts to ensure that the most economical tariff is used.**

Response from the Administration and the institutions

6.30 The **Secretary for Education and Manpower** agrees with the audit recommendations. He has said that the institutions should exercise prudence in reducing various expenses, including electricity tariff, which are principally financed by public funds.

6.31 The **President, City University of Hong Kong** agrees with the audit recommendations. He has said that CityU will continue to monitor closely the consumption pattern of its accounts and switch, where appropriate, to the most economical tariff. Regarding the two accounts identified by Audit in Table 14 of paragraph 6.11 above, he has also said that CityU has switched the tariff of its

Tak Chee Yuen account to the large power tariff to lower the unit cost by some 5%; and is seeking to do the same for its Telford Garden account.

6.32 The **President and Vice-Chancellor, Hong Kong Baptist University** has said that the HKBU is prepared to follow up the audit recommendations.

6.33 The **President, Lingnan University** agrees with the audit recommendations. He has said that the LU has submitted an application to change the tariff of the electricity accounts identified by Audit (see Table 15 in para. 6.15) to bulk tariff to achieve savings.

6.34 The **President, The Hong Kong Institute of Education** has said that the large power tariff might not be financially advantageous if there is a high maximum kVA together with relatively low total unit consumption. In four months during 2001-02, the application of the bulk tariff was actually more advantageous financially than applying the large power tariff. Such notwithstanding, he agrees with the audit observation that, based on past records on the high maximum kVA and the total unit consumption, the large power tariff would likely result in overall savings to the HKIEd (of about 1.6% of the total electricity expenditure), and will commence negotiation with Company B accordingly. He added that the HKIEd is continually improving its energy consumption, and will continue to monitor the consumption pattern closely and review the tariff structure constantly to ensure the most beneficial tariff rate will be adopted.

6.35 The **President, The Hong Kong Polytechnic University** has said that the PolyU has been practising the audit recommendations.

6.36 The **President, The Hong Kong University of Science and Technology** has said that the account identified by Audit in paragraph 6.23 relates to that for a new building. 2001-02 was the first complete year during which the building was in use, and careful monitoring indicated that the power consumption was not sufficiently high to enable use of the bulk tariff. Additional equipment has now been installed and the HKUST expects that the power consumption this year will be sufficient to justify use of the bulk tariff.

6.37 The **Vice-Chancellor, The University of Hong Kong** accepts the audit recommendations that the most economical tariff rates should be chosen, so as to improve cost-effectiveness. He has said that the HKU has already attained cost-effectiveness with the vast majority of its accounts, and the maximum potential saving of \$326,000 as specified in Table 18 would account for an immaterial 0.33% of the HKU's total electricity cost of \$97.5 million in 2001-02.

Audit observations on other energy saving measures

Energy management review

6.38 An energy management review is conducted by an organisation to identify areas where energy consumption can be reduced without affecting the operation of the organisation. Audit noted that energy management reviews were carried out by the eight institutions.

6.39 In examining the energy management review reports of the institutions, Audit noted that CityU, the HKBU and the CUHK conducted energy management reviews on a regular basis, whereas the other institutions adopted an ad hoc approach to reviewing their energy consumptions. In particular, CityU included a detailed analysis of the energy consumption trend. Audit considers that there are merits in introducing a mechanism for regularly reviewing the energy consumption of all institutions. In conducting the review, it is desirable to include a detailed analysis of the energy consumption trend. This will enable any significant increases in energy consumption to be identified for necessary investigation.

Energy efficiency improvement projects proposed by institutions

6.40 Audit noted that in 2001-02, the HKBU submitted a proposal to the UGC for funds to carry out energy efficiency improvement works on building services systems of the HSH Campus. The project cost was estimated at about \$15 million. The HKBU did not include a detailed financial analysis to demonstrate the financial benefits that the project would bring. As a result, the payback period was not known. The project was eventually not supported by the UGC. In response to Audit enquiry, the HKBU said that detailed financial analysis had not been included because the UGC only allowed a submission of about 50 words on each project proposal.

6.41 In the same year, CityU also submitted a proposal to the UGC for funds to replace the non-energy efficient lighting in CityU Academic Building. The project cost was estimated at about \$3.7 million. The payback period of the investment was not shown. The proposal was also not supported by the UGC.

6.42 Audit considers that projects for energy savings which incur capital costs should be supported by detailed analyses of the expected savings to be generated. The payback period of the project should also be shown. This will enable a better appraisal of the viability of the project. If it can be demonstrated that the payback period justifies the investment of capital expenditure, the institutions concerned should consider the option of using their own internal funds to implement the projects, instead of asking the UGC for funding. Audit considers that energy saving measures can result in financial savings to the institutions, and can also produce environmental benefits by reducing energy consumption.

Audit recommendations on other energy saving measures

6.43 **Audit has recommended that the institutions should:**

- (a) **consider introducing a mechanism for regularly reviewing their energy consumption;**
- (b) **perform a detailed analysis of the energy consumption trend when conducting an energy consumption review;**
- (c) **consider including a detailed analysis of the estimated savings and payback period in making proposals for energy saving projects; and**
- (d) **consider using internal funds to implement energy saving projects.**

Response from the Administration and the institutions

6.44 **The Secretary for Education and Manpower** agrees with the audit recommendations. He has said that institutions should promote a culture of cost-consciousness among staff, so that they are kept alert to any cost-saving measures.

6.45 **The Secretary-General, University Grants Committee** welcomes the audit recommendations for institutions to consider conducting energy consumption reviews.

6.46 **The President, City University of Hong Kong** agrees with the audit recommendations. He has said that CityU will include detailed analysis of costs and benefits including payback period of the investment in future proposals.

6.47 **The President and Vice-Chancellor, Hong Kong Baptist University** has said that the HKBU is prepared to follow up the audit recommendations. He has also said that the HKBU has recently implemented the recommendations (c) and (d) of paragraph 6.43 on a limited scale.

6.48 **The President, Lingnan University** agrees with the audit recommendations. He has said that the LU has been carrying out some of the good practices identified in the recommendations, and have been using internal funds for energy saving projects.

6.49 The **Vice-Chancellor, The Chinese University of Hong Kong** has said that the CUHK has established the Energy Savings Task Force to coordinate the energy savings programme, with regular review of energy consumption and trend analysis. During 2001 and 2002, the CUHK had spent \$10 million on lighting retrofit of major buildings, which would generate substantial annual electricity expenditure savings in the coming years. He has also said that the CUHK will continue to monitor new capital projects and ensure that energy saving measures are incorporated at the design stage of the project development.

6.50 The **President, The Hong Kong Institute of Education** has said that the HKIED publishes environmental reports that detail its energy conservation activities and initiatives (both technical improvements and administrative measures) on an annual basis. The HKIED has already attained the Electrical and Mechanical Services Department's status of compliance for energy efficiency for its air-conditioning system. The HKIED's application for lighting system compliance is being considered by the Electrical and Mechanical Services Department. He has also said that the HKIED constantly monitors and reviews its energy consumption, and has introduced energy saving measures. Annual consumption over the past years has remained fairly constant despite an increase in student number and the usage/ageing of the equipment.

6.51 The **President, The Hong Kong Polytechnic University** has said that the PolyU has been practising the various measures recommended by Audit and will enhance its efforts for future energy savings.

6.52 The **President, The Hong Kong University of Science and Technology** agrees with the audit recommendations. He has said that the HKUST has been acting in accordance with them for some time. The HKUST has three performance contracts, under which the capital costs of measures designed to ensure efficiencies in energy consumption are met by the service provider, these costs being reimbursed from savings in energy costs over an agreed period. Regular energy management reviews are thus conducted monthly and annually to ensure that the required savings are made. The HKUST has installed sub-metering system which ensures that areas of high energy consumption can easily be identified and appropriate action taken.

6.53 The **Vice-Chancellor, The University of Hong Kong** has said that the HKU has a similar mechanism as suggested by Audit for many years and has taken a series of proactive measures in recent years to contain the increases in consumption resulting from growth in activities and floor space, changes in modes of operation, and higher tariff rates charged by Company A. These include generally lifting the room temperature of the air-conditioned buildings, application of variable speed drives, installation of occupancy sensing systems, de-commissioning non-critical lightings, replacement of old systems and devices, and stricter control of the switching on/off time of air-conditioning system. The measures stated above are funded without additional grants from the UGC and they contributed an estimated saving of about \$8 million per annum.

PART 7: OUTSOURCING OF INSTITUTIONS' SERVICES

7.1 This PART examines the practice of outsourcing institutions' services (other than teaching and research).

Benefits of outsourcing

7.2 In the face of budgetary cuts and demand for better services, the institutions have been put under pressure to search for more cost-effective ways of providing the services. One option that has been increasingly under consideration by the institutions is the outsourcing of services previously provided and managed by in-house staff. Outsourcing has the benefit of subjecting the institutions' services to market competition and ensuring that these services are provided in a cost-effective manner. Other benefits of outsourcing include:

- (a) greater management flexibility in hiring staff and managing resources to meet fluctuating service demand;
- (b) acquiring skills or capabilities not available in-house;
- (c) gaining access to specialised expertise, management practices or equipment; and
- (d) further improving quality and efficiency of services.

Types and costs of estates management services outsourced

7.3 The principal area in which outsourcing of services has taken place is the estates management services. The institutions have wholly or partially outsourced various types of estates management services to private contractors. These services include cleaning, security, repair and maintenance, minor works, building alterations and campus management. Services other than estates management that have also been outsourced by some institutions include IT service, transport service, and binding and lamination service. Table 19 below shows the types and costs of estates management services, as well as examples of other services, outsourced by the institutions in 2001-02.

Table 19

Types and costs of estates management services
and examples of other services outsourced by the eight institutions in 2001-02

Institution	Cleaning	Security	Repair and maintenance, minor works, building alterations	Campus management	Total	Examples of other services outsourced
	(a)	(b)	(c)	(d)	(e) = (a) + (b) + (c) + (d)	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	
CUHK	-	-	71,835 (P)	-	71,835	IT service, transport, binding and lamination
PolyU	10,241 (P)	1,704 (P)	51,192 (P)	-	63,137	Gardening, transport, removal
HKIEd	9,289 (P)	9,191 (P)	27,869 (P)	-	46,349	Landscaping, transport, housekeeping, IT service
HKUST	8,384 (P)	5,446 (P)	30,348 (P)	-	44,178	Binding and lamination, IT service, removal, landscaping
HKU	1,740 (P)	4,415 (P)	37,914 (P)	-	44,069	Property management of senior staff quarters, carpark management, management services for the New Medical Complex
HKBU	4,314 (P)	5,672 (W)	32,284 (P)	-	42,270	Property management of senior staff quarters
CityU	8,626 (W)	8,381 (P)	19,832 (P)	-	36,839	Landscaping, removal
LU	1,673 (W)	2,195 (W)	7,481 (W)	3,063 (W)	14,412	Provision of lifeguards
Total	44,267	37,004	278,755	3,063	363,089	

Source: Institutions' records and Audit's analysis of financial statements of the institutions for the year 2001-02

Note 1: P = partly outsourced W = wholly outsourced.

Note 2: The above cost figures do not include the costs of the self-financing activities of the institutions.

Examples of savings achieved through outsourcing

7.4 The costs for outsourced services are generally lower than those of the in-house staff. Some institutions have achieved significant savings from outsourcing their services. Examples are shown in paragraphs 7.5 to 7.9 below.

7.5 ***Example 1: Savings achieved by the HKIEd through outsourcing of security and cleaning services.*** The HKIEd has entered into a contract with a security company to provide security service at its Tai Po Campus, Sports Centre and Town Centre at a contract sum of \$19.6 million for the period July 2001 to June 2003. The contractor provides a team of 72 staff for the duties. The HKIEd has estimated that if the service is undertaken in-house with an equivalent number and rank of staff, the total cost would amount to \$31.8 million for the two-year period. The outsourcing of the security service will result in a saving of \$12.2 million (i.e. 38% of the in-house staff cost).

7.6 Similarly, the HKIEd has outsourced its cleaning service at a contract sum of \$14.3 million for the two-year period July 2002 to June 2004. The cleaning company provides some 80 staff for the cleaning service at the Tai Po Campus and Sports Centre. The HKIEd has estimated that if the cleaning service is undertaken in-house, the cost would amount to \$20.8 million over the two-year period. The outsourcing of the cleaning service will result in a saving of \$6.5 million (i.e. 31% of the in-house staff cost).

7.7 ***Example 2: Savings achieved by the CUHK through outsourcing of transportation and binding and lamination services.*** In May 2001, the CUHK entered into a contract with a contractor to provide transport service for the period July 2001 to June 2003. The contractor provides drivers and passenger buses for the purpose of transporting students, staff and visitors between various points of the university campus. The CUHK has estimated that the cost of outsourcing the transport service (i.e. \$1.2 million a year) would be 50% lower than the cost of providing it in-house (i.e. \$2.4 million a year), resulting in a saving of \$1.2 million a year.

7.8 In 1997-98, the CUHK began to outsource part of its binding and lamination work, undertaken by the University Library System Bindery Unit, to a commercial binder. According to the CUHK's calculations, the average unit cost for the work performed by the commercial binder was, on average, 50% lower than that performed by in-house staff during the past four years from 1997-98 to 2000-01. The CUHK also estimated in May 2002 that, if all the binding and lamination work was wholly outsourced:

- (a) staff and material costs of about \$1 million a year could be saved;
- (b) a total outlay of \$1.4 million in the next two years for replacement of ageing equipment could be avoided; and
- (c) the prime office space of 155 square metres on the lower ground floor of the Main Library which housed the University Library System Bindery Unit could be used for other purposes.

7.9 In the event, the Bindery Unit was dissolved in August 2002, and the entire binding and lamination service was outsourced to commercial binders.

Analysis of in-house staff costs and outsourced expenditure on estates management services

7.10 Notwithstanding the significant cost savings that can be achieved, some institutions have outsourced their services at a much slower pace than the other institutions. Using estates management services (the principal areas in which outsourcing has taken place) as an example, some institutions (e.g. the HKUST and the HKU) still maintain relatively large teams of in-house staff to perform various estates management functions. These functions include campus/project development and management, logistics, building services, safety and environmental services, and other estates management services (e.g. cleaning, security and repair and maintenance works) not wholly outsourced to private contractors. An analysis of the in-house staff costs and the outsourced expenditure on estates management services of the eight institutions is shown in Table 20 below.

Table 20

**In-house staff costs and outsourced expenditure
on estates management services of the institutions in 2001-02**

Institution	In-house staff cost		Outsourced expenditure		Total	
	(a)		(b)		(c) = (a) + (b)	
	(\$'000)	(%)	(\$'000)	(%)	(\$'000)	(%)
HKUST	117,248	73	44,178	27	161,426	100
HKU	110,172	71	44,069	29	154,241	100
CityU	69,791	65	36,839	35	106,630	100
PolyU	104,947	62	63,137	38	168,084	100
CUHK	111,220	61	71,835	39	183,055	100
HKBU	34,864	45	42,270	55	77,134	100
HKIEd	33,538	42	46,349	58	79,887	100
LU	6,681	32	14,412	68	21,093	100
Total	588,461	62	363,089	38	951,550	100

Source: Financial statements of the eight institutions for 2001-02

Note: The above cost figures do not include the costs of the self-financing activities of the institutions.

7.11 **HKUST and HKU.** It can be seen from Table 20 above that the HKUST and the HKU had the highest percentage of in-house staff costs (i.e. 73% and 71% respectively) for the provision of estates management services. Although the HKUST and the HKU had outsourced certain types of estates management services (see Table 19 in para. 7.3 above), Audit's enquiries indicated that, as at 30 June 2002, the HKUST and the HKU still maintained large teams of in-house staff of 334 and 376 respectively to provide various estates management services, including cleaning and security services. The two institutions reduced the number of in-house staff mainly through natural attrition. They relied mainly on other measures to achieve cost savings, such as reorganisation, streamlining of their operating frameworks and appointment of contract staff to replace those in-house staff who had left by natural attrition.

7.12 **CityU.** It can be seen from Table 20 in paragraph 7.10 above that the percentage of in-house staff costs for CityU was 65% while the percentage for outsourced expenditure was 35%. In 2000, CityU had commissioned a consultant to carry out a Management Efficiency Review of its Facilities Management Office (same as the Estates Management Office in some other institutions). In his report of February 2001, the consultant concluded that there would be considerable scope to rationalise the size of the in-house team by outsourcing certain lower risk functions to service providers, and proposed that the in-house team size could be reduced from 222 to 36. The new in-house team would focus on strategy, planning, service procurement, and quality and performance management of service providers. The consultant estimated that the measure would bring about a saving of \$4.7 million annually. However, after taking into consideration the sensitivity of the proposal and the scale of staff redundancy involved, CityU decided not to pursue the consultant's proposal. Instead, CityU decided to continue its own organisational reviews to identify opportunities for rationalisation and to keep on reviewing whether its current outsourcing and in-sourcing arrangements were cost-effective.

7.13 **LU.** As can be seen from Table 20 in paragraph 7.10 above, among the eight institutions, the LU has outsourced the largest proportion of its estates management services. Its outsourced expenditure represented 68% of the costs for providing the estates management services. In addition to outsourcing services such as cleaning, security and repair and maintenance, the LU appointed a management company to take up the facilities management role. The company posted a team of 27 staff (with an appropriate staff mix and specialisation in different trades) full-time on site to take up management duties including the following:

- (a) operating the Sports Complex, the Student Hostels, the Auditorium as well as any other developments and facilities that were to be completed within the contract period;
- (b) setting up a detailed system for monitoring the performance of various outside contractors who provide other types of works including cleaning, security, lifeguard, landscaping, repair and maintenance etc., and carrying out the monitoring duties;

- (c) providing advice to the LU on technical specifications of tenders and quotations, and health and safety issues; and
- (d) carrying out routine checking to building equipment, plants and electrical and mechanical systems and taking up simple repair and maintenance works.

7.14 **HKIED.** The HKIED has also outsourced a large proportion of its estates management services. Its outsourced expenditure represented 58% of the costs for providing the estates management services. Since the setting up of its Tai Po Campus in November 1997, the HKIED has established and implemented a strategic outsourcing policy on security, cleaning, landscaping, staff bus, housekeeping service for visitor centre, and provision of on-campus medical and dental services. The HKIED has also carried out a number of reviews to explore the scope for further outsourcing its services, including provision of sports attendants and lifeguard service, and cleaning and security services for the self-financed student hostels.

Audit observations on outsourcing of institutions' services

7.15 The institutions have been outsourcing their services, in varying degrees, to enhance cost-effectiveness and achieve cost savings. While this proactive move is commendable, Audit notes that there is scope for more outsourcing, particularly for those institutions where a large proportion of services are still being provided by in-house staff. Audit considers that the institutions should consider the costs and benefits of further outsourcing their services. The potential for further savings could be substantial. For example, if the institutions outsource all their cleaning and security services that are being provided by in-house staff, potential savings could amount to \$31 million a year (see Appendix E).

7.16 In assessing the costs and benefits of further outsourcing, there is a need for the institutions to draw on the successful experiences of other institutions, both local and overseas. In this connection, apart from those services (e.g. cleaning, security, repair and maintenance and minor works) that are normally outsourced, Audit notes that there are successful outsourcing experiences in a variety of other services. The following are some of the potential areas for outsourcing that are worth considering:

- (a) campus management;
- (b) management and housekeeping of staff quarters and student hostels;
- (c) printing, copying, binding and lamination service;

- (d) landscaping and gardening;
- (e) provision of medical and dental services;
- (f) carpark management;
- (g) transport service;
- (h) removal service; and
- (i) IT service.

7.17 To realise the full potential of outsourcing, Audit considers that there is a need for the institutions to devise a long-term strategy for progressively increasing the extent of outsourcing. It is important to clearly define the role of the in-house team, particularly in the longer term, so that it would focus on service procurement and performance monitoring of the contractors, instead of playing the role of a direct service provider.

Audit recommendations on outsourcing of institutions' services

7.18 **Audit has *recommended* that the institutions should:**

- (a) **assess the costs and benefits of further outsourcing the institutions' services;**
- (b) **in assessing the costs and benefits of further outsourcing, draw on the successful experiences of other local and overseas institutions; and**
- (c) **if it is considered that further outsourcing is appropriate:**
 - (i) **devise a long-term strategy for progressively increasing the extent of outsourcing;**

- (ii) **clearly define the role of the in-house team, so that it would focus on service procurement and performance monitoring of the contractors, instead of playing the role of a direct service provider; and**
- (iii) **draw up an action plan with clear targets and milestones to implement the outsourcing strategy.**

Response from the Administration and the institutions

7.19 The **Secretary for Education and Manpower** has said that outsourcing is one of the means to achieve further savings. He agrees with Audit that institutions should review their long-term strategy on outsourcing.

7.20 The **Secretary-General, University Grants Committee** welcomes the audit recommendations for institutions to consider exploring new areas for outsourcing, so that some of the services would be subjected to market competition and provided in a more cost-effective manner.

7.21 The **President, City University of Hong Kong** has said that:

- (a) best value for money is the guiding criterion for CityU in the consideration of its options of outsourcing and other means of service delivery. CityU will continue to improve its productivity and quality on facilities management. It is worth noting that \$23.7 million in staff costs has been saved in the last three years through reduction in staff numbers; and
- (b) outsourcing is one of the possible cost-effective solutions. In addition to cost, service quality and users' satisfaction are critical factors for making the decision. In considering the options of outsourcing and other means of service delivery, CityU will ensure that there would not be any loss of in-house knowledge and ownership of the processes, as this would result in problems of service quality.

7.22 The **President and Vice-Chancellor, Hong Kong Baptist University** accepts the audit recommendations and has said that the HKBU is already making plans for more outsourcing.

7.23 The **President, Lingnan University** agrees with the audit recommendations on outsourcing of institutions' services.

7.24 The **Vice-Chancellor, The Chinese University of Hong Kong** has said that he will devise a long-term strategy on outsourcing. He has also said that although the open-tender exercise for ground cleaning services in 2000 did not generate significant savings and was therefore not pursued, the CUHK would continue to re-assess the situation. Potentially, cost saving opportunities may be available in security, hostels cleaning and campus management services, if outsourcing arrangement can be practically made without compromising service quality.

7.25 The **President, The Hong Kong Institute of Education** has said that the HKIED has outsourced a large proportion of its services and will continue to consider further outsourcing opportunities, taking into account the mission of the HKIED and any relevant costs and benefits.

7.26 The **President, The Hong Kong Polytechnic University** has said that the PolyU will continue its current practice of conducting cost-benefit analysis for every opportunity of further outsourcing, having due regard to the quality of core services, risk management and employee relations issues.

7.27 The **President, The Hong Kong University of Science and Technology** has said that in recent years salary costs in the Estates Management Office, in common with those in other areas, have been reduced significantly, by means of the non-filling of vacant posts and a programme of voluntary redundancy, and further reductions are anticipated. The HKUST is well aware of the costs and benefits of the outsourcing of services and will continue to keep the matter under review. It is, however, a matter best considered alongside the position with regard to the level of in-house staffing because there can be circumstances in which, in the shorter term at least, the costs associated with additional service contracts can be avoided.

7.28 The **Vice-Chancellor, The University of Hong Kong** has said that:

- (a) the HKU welcomes Audit's reminder of the need to continue to search for cost-effectiveness in its estates management services, with outsourcing being one of the avenues as stated in paragraph 7.18 above;
- (b) foreseeing the Government's impending budgetary cuts, redeploying resources from administrative and support services to teaching and research as much as practicable is one of the HKU's strategic targets. In 1996, the HKU first appointed a management consultant to carry out a review of the estates management services and, following that, established an internal working group to oversee the transformation processes;

- (c) outsourcing has in fact been used by the HKU for improving cost-effectiveness for a considerable period of time, even before the 1996 review. However, in doing so, the HKU is also aware of the importance of maintaining an acceptable level of service quality and its potential implications on staff and students. The HKU's experience in outsourcing is that the quality of service received is not always satisfactory. Also, in consideration of the potential implications on staff, the pace has been affected by the rate of natural staff attrition. To compensate for the constraint resulting from avoiding redundancies as far as practicable, in the interim period, "in-sourcing" has been adopted in recent years to improve productivity and cost-effectiveness. A substantial quantum of the services previously outsourced have been clawed back and are now performed by the HKU staff. Since 1996, the headcount of the HKU's Estates Management Office has been reduced from about 500 to 376;
- (d) outsourcing will continue to be one of the major options of the HKU in delivering estates management services. This is adopted strategically for the recently completed Faculty of Medicine Building at Sassoon Road, in which the HKU concluded that cleaning and security could be outsourced but general maintenance works of the Building should be taken up by the HKU staff;
- (e) the HKU will continue to monitor the cost-effectiveness of its estates management services, and outsource those services whenever it is appropriate to do so. The HKU also believes that review of estates management services should take into account not only the amounts spent but also the gross floor area served, i.e. efficiency ratio, and is aware that, based on its own assessment, on a per gross-floor-area basis, its amount spent per square metre is efficient amongst the major local institutions; and
- (f) the HKU is of the view that not all the cleaning and security services can be outsourced and a small percentage of the staff have to be retained for supervision purposes.

PART 8: ROLE OF PURCHASING OFFICES IN THE INSTITUTIONS

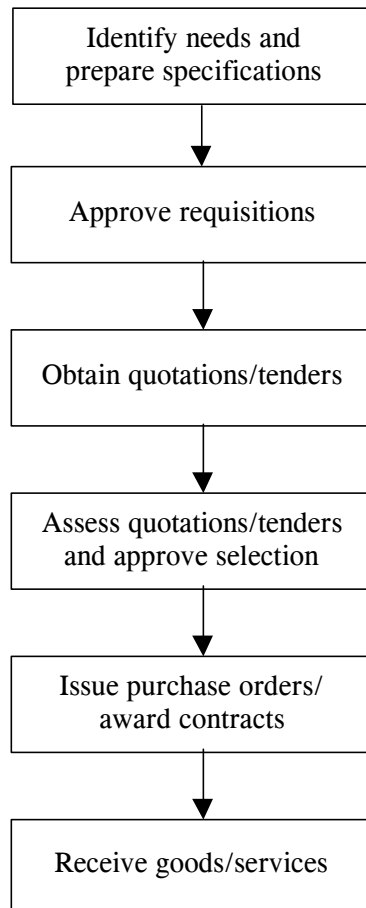
8.1 This PART examines the role of the purchasing offices in the institutions.

Procurement of goods and services

8.2 The institutions incur some \$3.4 billion a year on the procurement of goods and services. The flowchart in Figure 1 below shows the general procurement process in the institutions.

Figure 1

General procurement process in institutions



Source: Institutions' records

8.3 The institutions set their own rules on procurement and stipulate the authority (e.g. the tender board that comprised members of the institution's council committees) required to procure goods and services at different expenditure levels. The general procurement process, as shown in Figure 1 above, is carried out jointly by an institution's purchasing office (Note 16) which is generally responsible for procuring high-value items or services, and by the individual user departments which normally handle the procurement of lower-value items or services (e.g. purchases with an amount below \$5,000). The extent of participation of user departments in the procurement process varies among the institutions. While some institutions still maintain a more centralised procurement function, others have decentralised a substantial part of the procurement process to the user departments.

Management reviews of the HKUST's purchasing office

8.4 In order to streamline the operational procedures and reduce costs, the HKUST conducted periodic reviews of the role and performance of its purchasing office. In a review conducted by the HKUST's Internal Audit Office in 2001, it was revealed that since 1994 the HKUST had delegated the authority to user departments to procure items of value up to \$5,000, and since 1997 it had delegated to the teaching departments and laboratories the power to procure items of value up to \$20,000. However, of the purchase orders issued by the purchasing office, some 50% had values below \$5,000 and another 30% had values between \$5,000 and \$20,000. According to the HKUST's Internal Audit report:

- (a) not much value could be added by the purchasing office for its involvement in the purchase of small value items. Pragmatically, these small value items could and should be taken care of by the user departments themselves without going through the purchasing office;
- (b) given the fact that 80% of the purchase orders issued by the purchasing office were of value less than \$20,000 each, there was room for further decentralisation without affecting the existing level of controls;
- (c) the fact that most user departments were still relying on the purchasing office for the purchase of small value items was largely attributed to the proactive customer-oriented approach of the purchasing office; and
- (d) the purchasing office should aim to become a smaller office focusing on tendering and selection of regular and/or major supplies and the purchase of big-ticket items.

Note 16: *In some institutions, the purchasing office is called the Supplies Section, Procurement Unit, Purchasing and Payment Section, etc.*

8.5 In March 2001, the Audit Committee of the HKUST endorsed the findings of the Internal Audit report. The Audit Committee suggested that the purchasing office should use its professional resources to promote and undertake the high value-added activities of strategic purchasing, instead of continuing to be involved in the purchase of small value items. The strategic purchasing activities could include supplier development and management, contract management, partnership development and management, negotiation skills, process simplification and decentralisation.

Audit observations on the HKUST's purchasing office

8.6 As at June 2002, there were 26 staff in the HKUST's purchasing office. The number of staff was significantly larger than that of the other institutions. Audit recently reviewed the purchase orders and term contracts issued by the purchasing office in 2001-02. Audit found that the purchasing office was still handling a large number of low-value items and that, of the 7,973 purchase orders issued and 104 term contracts concluded in 2001-02, only 1,713 (or 21%) had values above \$20,000. Table 21 below shows the results of Audit's review.

Table 21
Purchase orders and term contracts
issued by the HKUST's purchasing office in 2001-02

Value	Number		Amount	
	(No.)	(%)	(\$ million)	(%)
<i>Purchase orders</i>				
Below \$5,001	4,171	52	8.0	3
\$5,001 to \$20,000	2,193	27	24.0	9
Above \$20,000	1,609	20	213.0	77
	7,973	1,713	245.0	21%
<i>Term contracts</i>				
	104	1	29.5	11
Total	8,077	100	274.5	100

Source: HKUST's records

8.7 Audit considers that there is scope for achieving cost savings by implementing the suggestion of the HKUST's Audit Committee that the purchasing office should concentrate on high value-added activities of strategic purchasing, and low-value-high-volume purchases should be decentralised.

Audit recommendations on the HKUST's purchasing office

8.8 Audit has *recommended* that the HKUST should:

- (a) redefine the role and function of the purchasing office so that it will concentrate on high value-added activities of strategic purchasing, as suggested by the HKUST's Audit Committee; and
- (b) identify savings that can be achieved after the purchasing office has taken up its new role.

Audit observation on the need for periodic reviews of the role of the purchasing offices of the institutions

8.9 As regards the other institutions, Audit noted that no similar management reviews of the role of the purchasing offices had been conducted. Audit considers that there is a need for these institutions to carry out similar reviews to enhance the cost-effectiveness of their purchasing offices.

Audit recommendation on the need for periodic reviews of the role of the purchasing offices of the institutions

8.10 Audit has *recommended* that the institutions should carry out periodic reviews of the role of their purchasing offices, so as to identify scope for improving the cost-effectiveness of the procurement process (e.g. by decentralising the purchases of low-value-high-volume items).

Response from the Administration and the institutions

8.11 The Secretary for Education and Manpower agrees with the audit recommendation that institutions could explore to improve the cost-effectiveness of their procurement process.

8.12 The **Secretary-General, University Grants Committee** agrees with the audit recommendations. He has said that the UGC is of the view that it is the responsibility of the institutions' management to keep under regular review their operation and organisation of activities (including the stores procurement function) to optimise the use of resource and efficiency and achieve best value for money. The UGC will play an overall monitoring role through established mechanism such as the management review exercise.

8.13 The **President, City University of Hong Kong** has said that the role of the purchasing offices should be subjected to periodic reviews as part of the institutions' continuous improvement initiatives. He has also said that given the significant differences in roles performed by the purchasing offices in the institutions, CityU believes that the overall costs for the provision of procurement services and the quality of such services are the best measurement of cost-effectiveness, regardless of how such services are provided.

8.14 The **President and Vice-Chancellor, Hong Kong Baptist University** has said that he will keep the operation of the HKBU's purchasing office under regular review in the light of the audit recommendation stated in paragraph 8.10 above.

8.15 The **President, Lingnan University** agrees that periodic reviews of various support services, including the role of the purchasing offices, should be carried out so as to identify scope for improving the cost-effectiveness of processes.

8.16 The **Vice-Chancellor, The Chinese University of Hong Kong** has said that as part of the management efficiency review of the Bursary in 1997-98, the Business Office (which performs, among other things, the functions of a purchasing office) was also examined and certain job re-arrangements were put into effect, which yielded long-term budget savings. The institutional management efficiency review is an on-going process and the operation of the Business Office will be periodically reviewed.

8.17 The **President, The Hong Kong Institute of Education** has said that the HKIED maintains a highly centralised procurement function after evaluating and balancing the financial risk and efficiency over the purchase of goods and services. He agrees with the audit recommendation in principle and will consider further delegation of the purchasing authority to user departments after doing a risk and benefit analysis.

8.18 The **President, The Hong Kong Polytechnic University** has said that the PolyU has been practising the periodic review of the role and performance of the purchasing office, as recommended by Audit.

8.19 The **President, The Hong Kong University of Science and Technology** has said that the HKUST's purchasing office is already focussing increasingly on the high value-added activities of strategic purchasing, this being one of the HKUST's re-engineering initiatives. This is already underway in the case of the negotiation of the contract for stationery supplies and those for catering services, and the practice will be extended to other areas. As that programme develops, consideration will certainly be given to the delegation to user departments of responsibility for the purchase of low-value items, whilst having regard to the fact that the university-wide policy of reducing non-teaching staff numbers has had an impact on the ability of departments to assume additional responsibilities.

8.20 The **Vice-Chancellor, The University of Hong Kong** has said that:

- (a) the HKU accepts that the role of its purchasing office should be monitored on a regular basis, so as to identify scope for improving cost-effectiveness. For this matter, the HKU is of the view that the number of staff deployed to the purchasing office and the statistics on its operating efficiency are amongst the indicators most relevant for such monitoring;
- (b) the HKU generates performance indicators on a half-yearly basis for its main regular financial activities to monitor their performance. The indicators for the purchasing functions are among them. The HKU notices from these indicators that the efficiency of its purchasing functions is, in general, on an improving trend in recent years. The HKU also regularly reviews its purchasing procedures; and
- (c) on the organisational aspects, the HKU believes that user departments should possess the information and experience most relevant to their operating requirements, and therefore should be able to make appropriate and value for money decisions in most circumstances. A decentralised structure is thus adopted in the HKU's purchasing mechanism.

Comparison of vacancy rates of SSQ of the
eight institutions as at 1 May 1997 and as at 31 October 2002

Institution	Vacancy position as at 31 October 2002		Vacancy position as at 1 May 1997		Increase/(decrease) in number of vacant SSQ
	No. of vacant SSQ	% of SSQ vacant	No. of vacant SSQ	% of SSQ vacant	
	(a)	(b)	(c)	(d)	(e) = (a) - (c)
		(%)		(%)	
HKU	41	8.5	6	1	35
CUHK	29	11.6	-	-	29
CityU	20	10.5	-	-	20
PolyU	18	27.3	33	13	(15)
HKBU	14	28.0	10	10	4
HKUST	4	0.9	19	5	(15)
HKIEd	2	10.5	(Note)	(Note)	2
LU	-	-	5	15	(5)
Overall	128	8.6	73	4	55

Source: Institutions' records

Note: The HKIEd did not have any vacant SSQ as at 1 May 1997. The SSQ of the HKIEd are on campus and were completed only in September 1999.

Analysis of the 1,366 allocated SSQ
by types of occupants as at 31 October 2002

Institution	Eligible staff	Staff recruited from overseas	PTA staff	HFA staff	Ineligible staff or outsiders paying market rent	Others (see notes)	SSQ already allocated pending occupation	Total number of SSQ allocated
HKU	187	38	4	38	137	24 (Note 1)	12	440
HKUST	149	18	18	175	21	3 (Note 2)	49	433
CUHK	61	5	12	107	16 (Note 3)	2 (Note 4)	19	222
CityU	69	–	28	66	3	1 (Note 5)	3	170
PolyU	14	3	2	29	–	–	–	48
HKBU	10	10	5	10	–	1 (Note 6)	–	36
HKIED	2	–	2	9	1 (Note 7)	3 (Note 8)	–	17
Total	492	74	71	434	178	34	83	1,366
Percentage	36%	5%	5%	32%	13%	3%	6%	100%

Source: Institutions' records

Note 1: In the HKU, eight quarters had been allocated as guest quarters since 2001. Four quarters were converted into academic and support facilities on a temporary basis. Eleven quarters were rented to academic visitors rent-free or at 7.5% salary deductions. One quarters unit was allocated to a staff member for operational reasons with no rental charge and a responsibility allowance of \$5,970 per month was paid to this staff member (see para. 2.29 above).

Note 2: In the HKUST, three quarters were allocated to senior staff for operational reasons. Only one staff member had to pay 7.5% of his monthly salary as rental charge (see para. 2.29 above).

Note 3: These 16 CUHK staff were paying market rent.

Note 4: In the CUHK, two quarters were being occupied by two visiting scholars (deductions were made at 7.5% of Point 1 of the Lecturer Salary Scale as rental charge).

Note 5: In CityU, one quarters unit had been occupied by a staff member as a warden. A responsibility allowance of \$5,070 per month was paid to this staff member. No salary deduction was made as rental charge (see para. 2.29 above).

Note 6: In the HKBU, one quarters unit had been rented to a staff member of CityU who paid a rent lower than the market rent.

Note 7: In the HKIED, one quarters unit had been rented to one staff member who was neither eligible for quarters nor receiving PTA/HFA. Market rent was collected from this staff member.

Note 8: These three senior staff of the HKIED were required to live in quarters as wardens on 24-hour duty. A responsibility allowance of \$4,250 per month was paid to each staff member. No salary deductions were made as rental charge (see para. 2.29 above).

**Estimate of savings in electricity charges if
the large power tariff had been used for the HKBU's HSH Campus electricity account**

Year	Month	Electricity consumption (kWh)	Maximum demand (kVA)	Electricity charge under		Savings if large power tariff had been selected (c) = (a) - (b) (\$)
				Bulk tariff (a) (\$)	Large power tariff (b) (\$)	
2001	July	1,318,430	2,950	1,050,031	983,104	66,927
	August	1,368,260	3,270	1,101,673	1,038,047	63,626
	September	1,324,010	3,500	1,091,483	1,050,050	41,433
	October	1,383,830	3,140	1,103,455	1,029,525	73,930
	November	1,119,720	3,140	935,013	909,460	25,553
	December	1,017,990	2,940	854,418	841,438	12,980
2002	January	999,010	2,580	816,849	832,273	-15,424
	February	870,010	2,610	733,389	768,373	-34,984
	March	1,038,750	2,770	855,689	853,498	2,191
	April	1,316,410	3,330	1,066,646	1,019,259	47,387
	May	1,401,820	3,090	1,106,433	1,030,258	76,175
	June	1,392,160	3,420	1,123,309	1,068,364	54,945
			Total	11,838,388	11,423,649	414,739

say **415,000**

Source: Audit's analysis based on HKBU's records

**Estimate of savings if the large
power tariff had been used for the HKIEd's main account**

Electricity consumption in 2001-02	Actual charges under bulk tariff	Estimated charges under large power tariff	Savings if large power tariff had been selected
(a)	(b)	(c)	(d) = (b) - (c)
(kWh)	(\$)	(\$)	(\$)
23,290,081	19,585,000	19,262,000	323,000

Source: Audit's analysis based on the HKIEd's records

**Potential annual savings if
the institutions outsource all their cleaning and security services**

	(\$)
Estimated annual saving on outsourcing of cleaning service	14,893,000 (Note 1)
Estimated annual saving on outsourcing of security service	16,439,000 (Note 2)
Total	<u>31,332,000</u>
	(Say 31 million)

Source: Institutions' records

Note 1: Estimated saving on outsourcing of cleaning service is calculated as follows:

*In-house staff responsible for
cleaning duties as at 30 June 2002*

<i>Institution</i>	<i>Number</i>	<i>Annual staff cost</i>	<i>Estimated savings if cleaning service is completely outsourced</i>
		<i>(a)</i>	<i>(b) = (a) × 32% (Note 3)</i>
		<i>(\$'000)</i>	<i>(\$'000)</i>
<i>CUHK</i>	<i>110</i>	<i>19,480</i>	<i>6,234</i>
<i>HKU</i>	<i>83</i>	<i>10,098</i>	<i>3,231</i>
<i>HKUST</i>	<i>43</i>	<i>5,954</i>	<i>1,905</i>
<i>PolyU</i>	<i>27</i>	<i>4,422</i>	<i>1,415</i>
<i>HKBU</i>	<i>27</i>	<i>3,796</i>	<i>1,215</i>
<i>HKIEd</i>	<i>12.5</i>	<i>2,251</i>	<i>720</i>
<i>CityU</i>	<i>4.5</i>	<i>540</i>	<i>173</i>
<i>LU</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total	<u>307</u>	<u>46,541</u>	<u>14,893</u>

Note 2: Estimated saving on outsourcing of security service is calculated as follows:

*In-house staff responsible for
security duties as at 30 June 2002*

<i>Institution</i>	<i>Number</i>	<i>Annual staff cost</i>	<i>Estimated savings if security service is completely outsourced</i>
		<i>(a)</i>	<i>(b) = (a) × 38% (Note 3)</i>
		<i>(\$'000)</i>	<i>(\$'000)</i>
<i>CUHK</i>	96	17,079	6,490
<i>HKU</i>	56	7,795	2,962
<i>PolyU</i>	37	6,858	2,606
<i>HKUST</i>	41	5,733	2,179
<i>HKIEd</i>	22.6	4,014	1,525
<i>CityU</i>	11.5	1,781	677
<i>HKBU</i>	-	-	-
<i>LU</i>	-	-	-
<i>Total</i>	<u>264.1</u>	<u>43,260</u>	<u>16,439</u>

Note 3: The estimated savings of 32% and 38% are calculated as follows:

*Savings claimed by institutions through
outsourcing of cleaning and security services*

A. Cleaning service

<i>Institution</i>	<i>Number of staff provided by contractor</i>	<i>Outsourced contract period</i>	<i>Outsourced contract sum</i>	<i>Staff cost involved if the service was undertaken in-house</i>	<i>Saving</i>	
			<i>(a)</i>	<i>(b)</i>	<i>(c) = (b) - (a)</i>	$(d) = \frac{(c)}{(b)} \times 100\%$
			<i>(\$'000)</i>	<i>(\$'000)</i>	<i>(\$'000)</i>	<i>(%)</i>
<i>HKIED</i>	81	<i>July 2002 to June 2004</i>	14,346	20,800	6,454	31%
<i>HKBU</i>	36.5	<i>July 2000 to June 2003</i>	7,948	12,282	4,334	35%
<i>CUHK</i>	8	<i>November 2002 to November 2003</i>	732	1,014	282	28%
<i>Overall</i>			<u><u>23,026</u></u>	<u><u>34,096</u></u>	<u><u>11,070</u></u>	32%

B. Security service

<i>Institution</i>	<i>Number of staff provided by contractor</i>	<i>Outsourced contract period</i>	<i>Outsourced contract sum</i>	<i>Staff cost involved if the service was undertaken in-house</i>	<i>Saving</i>	
			<i>(a)</i>	<i>(b)</i>	<i>(c) = (b) - (a)</i>	$(d) = \frac{(c)}{(b)} \times 100\%$
			<i>(\$'000)</i>	<i>(\$'000)</i>	<i>(\$'000)</i>	<i>(%)</i>
<i>HKIED</i>	72	<i>July 2001 to June 2003</i>	19,576	31,800	12,224	38%

Acronyms and abbreviations

CityU	City University of Hong Kong
CUHK	Chinese University of Hong Kong
EMB	Education and Manpower Bureau
GQ	Guest quarters
HFA	Home Financing Allowance
HFS	Home Financing Scheme
HKBU	Hong Kong Baptist University
HKIEd	Hong Kong Institute of Education
HKU	University of Hong Kong
HKUST	Hong Kong University of Science and Technology
HSH Campus	Ho Sin Hang Campus
JSQ	Junior staff quarters
kVA	Kilovolt-amperes
kWh	Kilowatt-hours
LegCo	Legislative Council
LU	Lingnan University
MPS	Master Pay Scale
PAC	Public Accounts Committee
PTA	Private Tenancy Allowance
PolyU	Hong Kong Polytechnic University
SSQ	Senior staff quarters
UGC	University Grants Committee