

CHAPTER 5

Electrical and Mechanical Services Department

<h3>Electrical and Mechanical Services Trading Fund</h3>

**Audit Commission
Hong Kong
4 April 2014**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 62 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>

Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

ELECTRICAL AND MECHANICAL SERVICES TRADING FUND

Contents

	Paragraph
EXECUTIVE SUMMARY	
PART 1: INTRODUCTION	1.1
Background	1.2 – 1.17
Audit review	1.18 – 1.19
Acknowledgement	1.20
PART 2: FINANCIAL AND OPERATION PERFORMANCE	2.1
Financial performance	2.2 – 2.10
Areas for improvement	2.11 – 2.20
Audit recommendations	2.21
Response from the Administration	2.22 – 2.23
EMSTF efforts to seek business opportunities outside the government sector	2.24 – 2.27
Areas for improvement	2.28 – 2.31
Audit recommendation	2.32
Response from the Administration	2.33

	Paragraph
B/D efforts to acquire E&M services through competitive tendering	2.34 – 2.35
Areas for improvement	2.36 – 2.42
Audit recommendations	2.43 – 2.44
Response from the Administration	2.45 – 2.50
 PART 3: MANAGEMENT OF OVERTIME WORK	 3.1
Overtime work	3.2 – 3.3
Pay for overtime work of NCSC staff of EMSTF	3.4 – 3.10
Areas for improvement	3.11 – 3.26
Audit recommendations	3.27
Response from the Administration	3.28 – 3.31
 PART 4: RELEASE OF EMSD SITES	 4.1
Relocation of EMSD Headquarters	4.2 – 4.6
Areas for improvement	4.7 – 4.12
Audit recommendations	4.13 – 4.14
Response from the Administration	4.15 – 4.18
 PART 5: PERFORMANCE REPORTING	 5.1
Background	5.2 – 5.4
Areas for improvement	5.5 – 5.15
Audit recommendations	5.16
Response from the Administration	5.17

	Paragraph
PART 6: WAY FORWARD	6.1
Electrical and Mechanical Services Trading Fund	6.2 – 6.9
Achievement of objective on seeking business outside the government sector	6.10 – 6.12
Audit recommendation	6.13
Response from the Administration	6.14

Appendices	Page
A : Organisation Chart of the EMSTF (31 December 2013)	72
B : Achievements of the EMSTF (August 1996 to February 2014)	73 – 75
C : Audit Reports covering EMSTF services (2001 to 2012)	76 – 77
D : Chronology of key events relating to the release of CWB Site (February 1996 to February 2014)	78 – 84
E : Acronyms and abbreviations	85

ELECTRICAL AND MECHANICAL SERVICES TRADING FUND

Executive Summary

1. The Electrical and Mechanical Services Trading Fund (EMSTF) was set up in August 1996 to manage and account for the operations of the Electrical and Mechanical Services Department (EMSD) with the exception of its regulatory services. The services of the EMSTF include operation and maintenance of electrical, mechanical, electronic and building services systems and equipment at major installations, and maintenance of vehicle fleets. The objectives of the EMSTF are to provide quality services to customers, continuously review the markets in which the EMSTF operates, identify new business opportunities and provide a suitable environment for EMSD staff to continuously improve processes and hence customer satisfaction.

2. The Director of Electrical and Mechanical Services is the General Manager of the EMSTF and the Development Bureau (DEVB) is responsible for formulating and reviewing government policies and aims in respect of provision of services under the EMSTF. The EMSTF is overseen by an Executive Board chaired by the Permanent Secretary for Development (Works). The Executive Board meets quarterly to review the policy, business strategies and financial performance of EMSTF services. Furthermore, the Financial Services and the Treasury Bureau holds half-yearly meetings with the EMSTF to monitor the latter's financial performance. Moreover, EMSTF annual reports and audited financial statements are submitted to the DEVB and the Legislative Council (LegCo) every year. According to Financial Circular No. 9/99, from August 2002, user departments are free to retain the services of the EMSTF or to choose alternative service providers to meet part or all of their electrical and mechanical (E&M) service needs. The Audit Commission (Audit) has recently conducted a review of the operation of the EMSTF with a view to identifying areas for improvement.

Executive Summary

Financial and operation performance

3. In 2012-13, EMSTF operating revenue was \$4,643 million while its operating cost was \$4,262 million, with an operating profit of \$381 million. In the same year, the actual rate of return on its Average Net Fixed Assets was 38.1%, and its actual rate of return on revenue was 6.9% (para. 1.16).

4. *Lack of systematic comparison and alignment of EMSTF prices with market prices.* In April 1996, the Government informed LegCo that exposing the EMSTF's services to direct price and performance comparisons would further improve its service standards and cost effectiveness. In December 1996, the Financial Secretary advised the EMSTF that it should find out what the private sector was charging for similar services provided by the EMSTF, and it should be able to match the commercial rates by 1999. However, Audit notes that the EMSTF only conducted a comprehensive market-price comparison exercise 16 years ago in 1998. From 1996-97 to 2012-13, having participated in 329 competitive tendering exercises, the EMSTF was successful in bidding the provision of E&M work on 155 (47%) occasions with a total contract value representing only 3.4% of its total turnover during the 17-year period. Although the EMSTF informed Audit that it had reviewed the market prices through participating in competitive tendering exercises and outsourcing its work to outside contractors, the EMSTF had not made use of the information obtained from the tendering exercises and outsourcing to systematically compare and align EMSTF prices with the market prices (paras. 2.7, 2.11, 2.13 and 2.14).

5. *Lack of plan to gainfully use the retained earnings.* As of March 2013, the EMSTF had accumulated retained earnings of \$2,308 million. However, the EMSTF has not conducted a review to ascertain the amount of reserve and working capital required for its operation, so that it could return any surplus fund to the Government (paras. 2.16 and 2.20).

6. *EMSTF clients confined to government bureaux and departments and quasi-government bodies.* According to the Framework Agreement entered into between the Government and the EMSTF in 1996, the services of the EMSTF would be provided to government bureaux and departments (B/Ds) and other government subvented or financially assisted agencies, and the opportunity would be taken to bid for and win business in other markets as they arise. However, Audit

Executive Summary

examination revealed that the EMSTF mainly derived its revenue from B/Ds and quasi-government bodies. In 2012-13, the EMSTF only derived \$4 million (0.1% of its revenue) from private organisations (paras. 2.24, 2.28 and 2.29).

7. ***B/Ds not conducting competitive tendering before obtaining EMSTF services.*** According to the Stores and Procurement Regulations, competitive bidding is a reliable safeguard for securing value for money procurement. Financial Circular No. 6/2001 states that a Controlling Officer may however choose to enter into a service level agreement with a trading fund direct without recourse to competitive bidding if he is clearly satisfied that, having regard to the circumstances of the case, inviting competitive bidding for the delivery of such services is not appropriate. However, Audit survey on major EMSTF clients revealed that, as of December 2013, the Food and Environmental Hygiene Department, the Architectural Services Department, the Hong Kong Police Force, the Government Property Agency and the Leisure and Cultural Services Department had awarded service agreements for all or most of their E&M services to the EMSTF through direct negotiation without going through competitive tendering (paras. 2.34, 2.39 and 2.40).

Management of overtime work

8. As of December 2013, the EMSTF had 4,768 staff, comprising 3,341 civil servants and 1,427 non-civil-service contract (NCSC) staff. In 2012-13, the EMSTF paid overtime allowance of \$117 million to its civil servants and \$22 million to its NCSC staff (para. 3.8).

9. ***Granting of overtime allowance to NCSC staff inconsistent with Civil Service Bureau policy and guidelines.*** According to Civil Service Bureau (CSB) Circular No. 2/2001 issued in January 2001, NCSC staff are not entitled to overtime allowance. However, the EMSTF has given approval for its NCSC staff to receive overtime allowance since May 2001. In 2012-13, overtime allowance paid to NCSC staff of the EMSTF amounted to \$22 million (paras. 3.3 and 3.6).

10. ***Overtime work largely recompensed by overtime allowance instead of time off.*** According to Civil Service Regulations (CSRs), overtime work performed by staff should normally be compensated by time off in lieu. However, Audit

Executive Summary

examination revealed that, in 2012-13, 96% of overtime work performed by EMSTF civil servants and 90% by its NCSC staff was recompensed by overtime allowance instead of time off in lieu. Furthermore, according to CSB Circular No. 18/2000, time off is granted preferably before a staff takes his earned vacation leave, unless the staff concerned has accumulated the maximum amount of earned vacation leave permissible under the relevant CSR. However, Audit sample test revealed that 25 EMSTF civil servants had been approved to take vacation leave during the period from November 2012 to October 2013 while they had accumulated uncompensated overtime work balance, and at the same time their vacation leave balance had not reached the maximum levels (paras. 3.19, 3.25 and 3.26).

Release of EMSD sites

11. *Long time taken in releasing a site in Causeway Bay for development.* In June 2001, LegCo was informed that a site (with an area of 16,000 square metres) in Causeway Bay (CWB Site) on Hong Kong Island would be released for development in 2004-05. In 2005, the EMSD Headquarters at CWB Site was relocated to a building at Kai Tak in Kowloon. However, it transpired that CWB Site would only be handed over to the Lands Department for disposal in May 2014, ten years later than the original target date (paras. 4.2, 4.5 and 4.9).

Performance reporting

12. *Performance pledges for majority of services not formulated and published.* Audit notes that the EMSTF has not published performance pledges, targets and achievements of majority of its services in annual reports or website for information of the public (para. 5.10).

Way forward

13. Audit notes that, 17 years after its establishment, EMSTF clients are primarily B/Ds and quasi-government bodies. On the other hand, B/Ds predominantly rely on the EMSTF to provide E&M services. This situation may not have helped the EMSTF to fully achieve the objective of exposing its services to market competition (para. 6.12).

Executive Summary

Audit recommendations

14. Audit recommendations are provided in the respective sections of this Audit Report. This Executive Summary only highlights the key recommendations. Audit has *recommended* that, regarding EMSTF operations, the Administration should:

Financial and operation performance

- (a) take action to systematically compare and align EMSTF prices with market prices (para. 2.21(a));
- (b) conduct a review to ascertain the amount of reserve required for the operation of the EMSTF, and return any surplus fund to the Government (para. 2.21(b));
- (c) take action to explore business opportunities in markets other than B/Ds, government subvented or financially assisted agencies (para. 2.32);
- (d) conduct competitive tendering in procuring E&M services in future as far as possible (para. 2.43(a));

Management of overtime work

- (e) take action to rectify the granting of overtime allowance to NCSC staff which is inconsistent with CSB policy and guidelines (para. 3.27(a));
- (f) conduct a review of the high percentages of overtime work being recompensed by overtime allowance instead of time off in lieu and take necessary remedial action (para. 3.27(c));
- (g) closely monitor and take measures to prevent habitual and long hours of overtime work of some EMSTF staff (para. 3.27(d));

Executive Summary

- (h) take measures to ensure that time off for any uncompensated overtime hours accumulated is granted preferably before a staff takes his earned leave, unless the staff concerned has accumulated the maximum amount of earned vacation leave permissible under the relevant CSR (para. 3.27(e));

Release of EMSD sites

- (i) inform the LegCo Panel on Development of the ten-year slippage in releasing CWB Site for development vis-à-vis the time stated in the funding application submitted to LegCo in June 2001 (para. 4.14);

Performance reporting

- (j) formulate and publish appropriate performance pledges for EMSTF services (para. 5.16(b)); and

Way forward

- (k) conduct a review to evaluate the effectiveness of the EMSTF in achieving its objective of exposing its services to market competition and determine the way forward for the Fund (para. 6.13).

Response from the Administration

15. The Administration agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

Setting up of trading funds

1.2 According to a paper on Public Sector Reform (Note 1) issued by the Government in 1989:

- (a) trading funds are accounting frameworks established by law for departments providing services on a quasi-commercial basis with the objective of recovering costs;
- (b) trading-fund departments do not have the same autonomy as a corporation, but have greater financial flexibility than traditional government departments. Their staff, however, remain part of the civil service and subject to its terms and conditions;
- (c) for support services, the decision to establish a trading fund would be to promote one or more of the following:
 - (i) a more economical use of the service, particularly where no charge has been raised in the past;
 - (ii) greater efficiency, by exposing the service to competition or to proxy competitive pressures through price comparisons and cost consciousness on the part of the user; and

Note 1: *In 1989, the Government issued a paper on Public Sector Reform, suggesting ways to improve the financial and performance management of the public sector. The aim of the reform programme was to improve the quality of management within the civil service by promoting an increased awareness of what results were actually being achieved by the Government and at what cost.*

Introduction

- (iii) the reorientation of the service to a customer-led rather than producer-driven organisation and culture; and
- (d) since trading funds are intended to operate on a commercial basis, they would charge for their services and user departments would have the choice of using more or less of those services. A real customer/supplier relationship would develop.

1.3 In November 1992, in submitting the Trading Funds Bill to the Legislative Council (LegCo), the Administration informed LegCo that the major benefits which were expected from establishing trading funds were improvements in the quality of service provided to customers through the following initiatives:

- (a) the promotion of a customer-led rather than producer-driven regime;
- (b) greater efficiency and cost-consciousness by exposing the service to competition or to quasi-commercial pressures; and
- (c) the removal of those constraints of the vote accounting system which inhibited responsive and efficient management.

1.4 The Trading Funds Ordinance (Cap. 430) was enacted in 1993, under which the Financial Secretary shall designate a general manager to manage a trading fund with the objectives of:

- (a) providing an efficient and effective operation that meets an appropriate standard of service;
- (b) within a reasonable time, meeting expenses incurred in the provision of the government service and financing liabilities of the trading fund out of the income of the trading fund, taking one year with another; and
- (c) achieving a reasonable return, as determined by the Financial Secretary, on the fixed assets employed.

1.5 Between 1993 and 1996, the following six trading funds had been set up:

- (a) Companies Registry Trading Fund (in 1993);
- (b) Land Registry Trading Fund (in 1993);
- (c) Sewage Services Trading Fund (in 1994);
- (d) Office of the Communications Authority Trading Fund (in 1995);
- (e) Post Office Trading Fund (in 1995); and
- (f) Electrical and Mechanical Services Trading Fund (EMSTF — in 1996).

1.6 Owing to large projected operating deficits, the Sewage Services Trading Fund was dissolved in 1998. Since then, no new trading fund has been set up.

Establishment of EMSTF

1.7 In June 1996, in proposing to set up the EMSTF, the Government informed LegCo that the EMSTF aimed to:

- (a) provide quality services to its customers in a cost-effective, safe and reliable manner;
- (b) continuously review the markets in which the EMSTF operated;
- (c) identify new business opportunities; and
- (d) provide a suitable environment for the Electrical and Mechanical Services Department (EMSD) staff to continuously improve processes and hence customer satisfaction.

Introduction

1.8 In August 1996, subsequent to LegCo's approval, the EMSTF was established to manage and account for the operations of the EMSD with the exception of its regulatory services. The Director of Electrical and Mechanical Services has been designated as the General Manager of the EMSTF to control and manage the trading fund. The Development Bureau (DEVB — Note 2) is responsible for formulating and reviewing government policies and aims in respect of provision of services under the EMSTF.

1.9 According to the Trading Funds Ordinance, the EMSTF shall be established to manage and account for the operation of certain government services of the EMSD. The services provided by the EMSTF include:

- (a) operation and maintenance of electrical, mechanical, electronic and building services systems and equipment at major installations, such as office buildings, hospitals, airports and civic venues;
- (b) maintenance of other electrical, mechanical, electronic and building services systems and equipment;
- (c) maintenance of vehicle fleets;
- (d) design, procurement, project management and other technical consultancy services in relation to electrical, mechanical and electronic systems and vehicle fleets; and
- (e) operation and maintenance of a refuse incineration plant.

Note 2: *Before July 2002, the then Works Bureau (July 1997 to June 2002) and the then Works Branch (before July 1997) were responsible for the policy portfolio on works matters. In July 2002, the then Environment, Transport and Works Bureau was set up and took over the policy portfolio on works matters from the Works Bureau. In July 2007, the DEVB was formed to take over the works policy portfolio. For simplicity, all previous policy bureaux responsible for the policy portfolio on works matters are referred to as the DEVB in this Audit Report.*

Framework Agreement of EMSTF

1.10 In September 1996, the then Secretary for Works (now the Secretary for Development) and the Director of Electrical and Mechanical Services entered into a Framework Agreement on the operation of the EMSTF. The Agreement delineated the broad organisational basis and responsibilities of the EMSTF within the overall structure of the Government. It also stated that the Secretary for Development will prescribe the aims and objectives of the EMSTF, while the Director of Electrical and Mechanical Services is responsible for the actual delivery of services to meet such aims and objectives. According to the Framework Agreement:

- (a) the mission of the EMSTF is to be the most comprehensive and reliable provider of quality and cost-effective electrical and mechanical (E&M) services in Hong Kong;
- (b) the services of the EMSTF will be provided to government departments, municipal councils (Note 3), and other government subvented or financially assisted agencies. The opportunity will be taken to bid for and win business in other markets as they arise;
- (c) every year, the Director of Electrical and Mechanical Services will prepare a Corporate and Business Plan covering the current year and four subsequent years for approval by the Secretary for Development. The Plan outlines the EMSTF's objectives, services targets and medium term financial projections; and
- (d) the Secretary for Development may at any time, in consultation with the Director of Electrical and Mechanical Services and as appropriate others in Government, vary the contents of the Agreement, or issue supplementary directions or guidance to clarify any matter in the Agreement.

Note 3: *Municipal councils, known as the Urban Council and the Regional Council, were the statutory authorities responsible for providing municipal services in urban areas and the New Territories respectively. The services included environmental hygiene, public health, liquor licensing, and the provision of recreation, sports and cultural facilities. The two councils were dissolved at end of 1999, and their functions were taken over by government departments, such as the Food and Environmental Hygiene Department and the Leisure and Cultural Services Department.*

Introduction

Monitoring of EMSTF

1.11 The EMSTF is overseen by an Executive Board which is chaired by the Permanent Secretary for Development (Works), with members comprising representatives from the DEVB and the EMSTF, including the Director of Electrical and Mechanical Services. The terms of reference of the Board include:

- (a) providing liaison between the Permanent Secretary and the Director on implementation of initiatives under the EMSTF in accordance with the Framework Agreement;
- (b) considering the annual Corporate and Business Plans and recommending them to the Permanent Secretary; and
- (c) monitoring the overall pricing levels and measures taken to make services provided by the EMSTF more competitive.

The Executive Board meets quarterly to review the policy, business strategies and financial performance of EMSTF services.

1.12 Furthermore, the EMSTF annual Corporate and Business Plans are submitted to the Financial Services and the Treasury Bureau (FSTB — Note 4) and it holds half-yearly meetings with the EMSTF for the purpose of monitoring the latter's financial performance. Moreover, the EMSTF submits an annual report with audited financial statements to the DEVB, and the latter tables the report and statements at LegCo every year.

Note 4: *Before July 2002, the then Finance Bureau (July 1997 to June 2002) and the then Finance Branch (before July 1997) were responsible for the policy portfolio on treasury matters. In July 2002, the FSTB was set up and took over the policy portfolio on treasury matters. For simplicity, all previous policy bureaux responsible for the policy portfolio on treasury matters are referred to as the FSTB in this Audit Report.*

Vision and missions of EMSTF

1.13 According to EMSTF 2012-13 Annual Report, the vision of the EMSTF is to improve the quality of life for the community through continuous enhancement of its E&M engineering services. Its missions are:

- (a) providing quality engineering solutions to satisfy the customers' needs;
- (b) developing a competent workforce and maintaining a harmonious environment; and
- (c) keeping pace with technology development and process improvement for service enhancement.

1.14 As stated in EMSTF 2012-13 Annual Report, the EMSTF focuses on public value based on a new business model which operates with a minimal profit. As stated in EMSTF Corporate and Business Plan for 2013-14 to 2017-18, the EMSTF will achieve a minimal profit exceeding the financial target set by the FSTB while leaving its clients with more resources for achieving their core missions.

Untying arrangement for EMSTF

1.15 According to Financial Circular No. 9/99 "Untying Departments from the Services of the EMSTF" issued in June 1999:

- (a) government departments and autonomous bodies were tied to using services provided by the EMSTF for three years up to July 1999;
- (b) with effect from August 1999, user departments would be untied from the services of the EMSTF by phases over a three-year period; and
- (c) upon untying from August 2002, user departments would be free to retain the services of the EMSTF or to choose alternative service providers to meet part or all of their E&M service needs.

Introduction

Financial performance of EMSTF

1.16 In order to achieve a reasonable return on fixed assets (see para. 1.4(c)), the Financial Secretary has directed that the EMSTF's target rate of return should be measured based on its Average Net Fixed Assets (ANFA — Note 5). According to the FSTB, the target rate of return on ANFA is set to reflect the cost of capital employed in setting up, maintaining and enhancing the services, and to provide a tool for evaluating and monitoring the financial performance of a trading fund as a whole, and is set through benchmarking against similar commercial operations in the private sectors. The target rates of return on ANFA of the EMSTF as determined by the Financial Secretary from 1996-97 to 2013-14 were as follows:

Period	Target rate of return on ANFA
1996-97 to 2005-06	13.5%
2006-07 to 2011-12	8.5%
2012-13 to 2013-14	7.8%

In addition to the return on ANFA, the EMSTF also adopts the rate of return on revenue (RoR) to measure its financial performance. Table 1 shows the financial performance of the EMSTF from 1997-98 to 2012-13 at five-year intervals.

Note 5: *ANFA is the average of the opening and closing balances of fixed assets in a financial year.*

Table 1
Financial performance of EMSTF
(1997-98 to 2012-13 at five-year intervals)

Particulars	1997-98 (\$ million)	2002-03 (\$ million)	2007-08 (\$ million)	2012-13 (\$ million)
Turnover				
(i) Electrical, mechanical and electronic services	2,106	2,780	3,101	4,025
(ii) Project and consultancy services	176	305	169	331
(iii) Vehicle services	347	208	236	268
(iv) Others	25	29	28	19
Total turnover (a)	2,654	3,322	3,534	4,643
Operating costs				
(i) Staff cost	1,489	1,693	1,665	2,095
(ii) Contractor cost	413	689	1,003	1,551
(iii) Materials	251	237	343	396
(iv) Others	198	227	202	220
Total operating costs (b)	2,351	2,846	3,213	4,262
Profit from operations (c)=(a) – (b)	303	476	321	381
Interest income (d)	36	62	102	152
Interest expense (e)	26	6	—	—
Profit before notional profits tax (f)=(c)+(d)–(e)	313	532	423	533
Notional profits tax (g) (Note 1)	51	77	56	84
Total comprehensive income (h)=(f) – (g)	262	455	367	449
Rate of return on ANFA (Note 2)	25.7%	44.4%	30.0%	38.1%
Rate of RoR (Note 3)	9.5%	12.0%	7.5%	6.9%

Source: EMSTF records

Note 1: The EMSTF does not need to pay profits tax under the Inland Revenue Ordinance (Cap. 112). However, for trading-fund purposes, it is required to pay the Government an amount equivalent to profits tax payable according to the relevant provisions of the Inland Revenue Ordinance.

Note 2: From 2006-07, the rate is the percentage of the profit from operations (interest income not included) after notional tax on such profit over the value of the ANFA. For simplicity and comparison purposes, the rates shown in this Table are net of interest income.

Note 3: The rate is the percentage of the profit from operations after notional tax on such profit over the value of turnover. For example, in 2012-13, the RoR rate is: [$\$381 \text{ million} \times (100\% - 16.5\%) \div 4,643 \text{ million}$] $\times 100\% = 6.9\%$.

Introduction

1.17 As of December 2013, the EMSTF had 4,768 staff, comprising 3,341 (70%) civil-service staff and 1,427 (30%) non-civil-service contract (NCSC) staff. An organisation chart of the EMSTF is shown in Appendix A.

Audit review

1.18 As of December 2013, 11 years after government bureaux and departments (B/Ds) were allowed to choose E&M service providers other than the EMSTF (see para. 1.15(c)), most B/Ds still heavily relied on the EMSTF to provide such services. In 2012-13, 74.6% of the EMSTF's operating revenue of \$4,643 million was derived from B/Ds, 25.3% from quasi-government bodies and 0.1% from private organisations. Of the 25.3% of the EMSTF's operating revenue, 19.5% came from the Hospital Authority (HA), 2.9% from the Airport Authority Hong Kong and the remaining 2.9% from other pertinent bodies (Note 6).

1.19 The Audit Commission (Audit) has recently conducted a review of the operation of the EMSTF with a view to identifying areas for improvements. The review focuses on the following areas:

- (a) financial and operation performance (PART 2);
- (b) management of overtime work (PART 3);
- (c) release of EMSD sites (PART 4);
- (d) performance reporting (PART 5); and
- (e) way forward (PART 6).

Audit has identified areas where improvements can be made by the Government in the above areas, and has made recommendations to address the issues.

Note 6: *Other pertinent bodies included LegCo, the Prince Philip Dental Hospital and the Environment and Conservation Fund.*

Acknowledgement

1.20 Audit would like to acknowledge with gratitude the full cooperation of the staff of the EMSTF, the DEVB, the FSTB, the Civil Service Bureau (CSB), the Architectural Services Department (ArchSD), the Food and Environmental Hygiene Department (FEHD), the Government Property Agency (GPA), the HA, the Hong Kong Police Force (HKPF), the Lands Department (Lands D), the Leisure and Cultural Services Department (LCSD) and the Planning Department (PlanD) during the course of the audit review.

PART 2: FINANCIAL AND OPERATION PERFORMANCE

2.1 This PART examines the financial and operation performance of the EMSTF, focusing on:

- (a) financial performance (paras. 2.2 to 2.23);
- (b) EMSTF efforts to seek business opportunities outside the government sector (paras. 2.24 to 2.33); and
- (c) B/D efforts to acquire E&M services through competitive tendering (paras. 2.34 to 2.50).

Financial performance

Return on ANFA and RoR rate

2.2 Under the Trading Funds Ordinance, the EMSTF is required to achieve a reasonable return on the fixed assets employed as determined by the Financial Secretary (see para. 1.4(c)). In addition to the rate of return on ANFA, the EMSTF also adopts the RoR rate to measure its financial performance (see para. 1.16). Table 2 shows the target and actual rates of return on ANFA and the actual RoR rates of the EMSTF from 1996-97 to 2012-13.

Table 2

**Rates of return on ANFA and RoR rates of the EMSTF
(1996-97 to 2012-13)**

Year	Rate of return on ANFA (Note 1)		Actual RoR rate (Note 2) (c)
	Target (a)	Actual (b)	
1996-97	13.5%	16.0%	9.6%
1997-98	13.5%	25.7%	9.5%
1998-99	13.5%	29.5%	9.8%
1999-00	13.5%	30.8%	9.5%
2000-01	13.5%	41.4%	12.2%
2001-02	13.5%	45.9%	12.6%
2002-03	13.5%	44.4%	12.0%
2003-04	13.5%	28.9%	8.0%
2004-05	13.5%	33.2%	9.4%
2005-06	13.5%	31.4%	8.6%
2006-07	8.5%	34.9%	9.4%
2007-08	8.5%	30.0%	7.5%
2008-09	8.5%	30.9%	7.2%
2009-10	8.5%	49.1%	10.4%
2010-11	8.5%	58.1%	11.9%
2011-12	8.5%	45.5%	9.0%
2012-13	7.8%	38.1%	6.9%

Source: Audit analysis of EMSTF records

Note 1: The rate of return on ANFA is the percentage of the profit from operations after notional tax on such profit over the value of the ANFA (see para. 1.16). From 2006-07, the EMSTF has excluded interest income from the calculation of the rate of return on ANFA. For simplicity and comparison purposes, the rates shown in this Table are net of interest income.

Note 2: The RoR rate is the percentage of the profit from operations after notional tax on such profit over the value of turnover.

Financial and operation performance

2.3 As shown in Table 2, the actual rates of return on ANFA (column (b)) over the past 17 years were significantly higher than the target rates. Moreover, the financial performance of the EMSTF can also be measured by the actual RoR rates (column (c)).

2.4 In June 2001, the DEVB asked the EMSTF to explain why it was able to achieve a high rate of return on ANFA for 2000-01 (actual rate of 41.4%, net of interest income) which far exceeded the target rate of 13.5%. In response, the EMSTF informed the DEVB that the target return rate was regarded as the minimum requirement, and the high return rate was mainly due to:

- (a) additional revenue from services not included in service agreements; and
- (b) tight control of operating expenditure with more outsourcing of work.

Pricing strategy

2.5 According to the EMSTF, since November 2010, it has adopted a pricing strategy with a view to ensuring reasonable prices with lower profit margins while achieving the target rate of return on ANFA, and its target profit margins range from 5% to 10% for different services, and due consideration is given to market prices when bidding for tenders. Furthermore, as stated in EMSTF 2012-13 Annual Report, the EMSTF is in the process of trimming down its profit margins.

Achievement of EMSTF objectives

2.6 In February and March 2014, the EMSTF informed Audit that:

- (a) the development of the EMSTF had been on the right track since its establishment in 1996, and it had taken actions to achieve the four objectives (see para. 1.7) of setting up the Fund;

- (b) it was the first government department in Hong Kong which obtained the Corporate Certification for International Organization for Standardization (ISO — Note 7) 9001 Quality Management System for delivery of quality, safe and reliable services;
- (c) it won the Gold Award of 2006 Hong Kong Management Association Quality Award; and
- (d) the annual turnover of the EMSTF had increased from \$2,654 million in 1997-98 to \$4,643 million in 2012-13.

The EMSTF also informed Audit of its other achievements in the past 17 years (see Appendix B).

Actions taken to compare EMSTF prices with market prices

2.7 In April 1996, the Government informed the LegCo Panel on Financial Affairs that exposing the EMSD's services to direct price and performance comparisons would further improve its service standards and cost effectiveness. Furthermore, in June 1996, when proposing to establish the EMSTF, the Government informed LegCo that the purpose of setting up the EMSTF was to provide services and maintain competitiveness in a more flexible manner, and the EMSTF would continuously review the markets in which it would operate. In December 1996, the FSTB informed the EMSTF that B/Ds had expressed concerns over the EMSTF's high level of charges and the need for the EMSTF to become more competitive. In the same month, the Financial Secretary (Note 8) advised the EMSTF that it should find out what the private sector was charging for similar services provided by the EMSTF, and it should be able to match the commercial rates by 1999.

Note 7: *The ISO is an independent non-government organisation comprising national standards bodies for facilitating international coordination and unification of industrial standards.*

Note 8: *Under section 6(5) of the Trading Funds Ordinance, the Financial Secretary may issue directions to the General Manager of the EMSTF for the control and management of the trading fund and the General Manager shall comply with the directions.*

Financial and operation performance

2.8 In September 1998, the EMSTF completed a benchmarking study (1998 Benchmarking Study) on the market prices for similar services provided by the EMSTF. The Study covered six divisions under the Engineering Services Branches 1 and 2 of the EMSTF (see Appendix A) and compared the EMSTF prices with those charged by selected private service providers for 37 types of E&M services, the revenue of which accounted for 73% of the EMSTF's operating revenue in 1998-99. The findings are shown in Table 3.

Table 3

**Findings of 1998 Benchmarking Study
(September 1998)**

Particulars	EMSTF prices comparing with market prices			
	More expensive (a)	Less expensive (b)	Comparable (c)	Total (d) = (a) + (b) + (c)
Types of E&M services	14 (38%)	16 (43%)	7 (19%)	37 (100%)
Percentage of operating revenue in 1998-99	46%	14%	13%	73% (Note)

Source: Audit analysis of EMSTF records

Note: E&M services accounting for 27% of the operating revenue in 1998-99 were not covered in this Study.

Financial and operation performance

2.9 In February 2000, the Government informed the LegCo Panel on Financial Affairs that the EMSTF's prices and practice were generally comparable to major competitors in the market, and the EMSTF was particularly strong in areas of reliability, the range and depth of technical expertise, independent professional judgement and accountability.

2.10 From 2005-06 to 2009-10, the EMSTF had conducted small-scale benchmarking studies covering the prices of 13 types of E&M services. According to the EMSTF, these small-scale benchmarking studies mainly aimed at understanding the market practices for the purposes of improving the EMSTF's productivity, service quality and market competitiveness. Table 4 summarises the results of the price comparison of 13 types of E&M services with the market prices.

Table 4

**Findings of small-scale benchmarking studies
(2005-06 to 2009-10)**

Particulars	EMSTF prices comparing with market prices			
	More expensive (a)	Less expensive (b)	Comparable (c)	Total (d) = (a) + (b) + (c)
Types of E&M services	4 (31%)	6 (46%)	3 (23%)	13 (100%)

Source: Audit analysis of EMSTF records

Areas for improvement

Lack of systematic comparison and alignment of EMSTF prices with market prices

2.11 Audit notes that the last EMSTF comprehensive market-price comparison exercise was conducted 16 years ago in 1998.

2.12 In February and March 2014, the EMSTF and the DEVB informed Audit that:

EMSTF

- (a) the data obtained in the 1998 Benchmarking Study were limited and like-with-like comparison could not be made for some types of E&M services, and some data from the Study were outdated. Moreover, the findings of the Study were used for developing qualitative business strategies in the EMSTF's Corporate and Business Plans;
- (b) in addition to the small-scale benchmarking studies conducted in subsequent years (see para. 2.10), the EMSTF had adopted the following approaches to review the market prices:
 - (i) *Participating in competitive tendering exercises.* The EMSTF obtained understanding of the latest market position and gathered market information through participation in competitive tendering exercises for E&M services, which covered the bulk of the EMSTF's services. Post-tender analyses were conducted for some unsuccessful EMSTF tenders to compare EMSTF tender prices and service quality with those of the winning tenders, and to review its tender pricing strategy and the impact on its overall business; and
 - (ii) *Outsourcing work to contractors in the private sector.* The EMSTF engaged contractors in the private sector to carry out some of its services, and collected updated market information through management of over 500 outsourced contracts of various E&M services;

- (c) the market price information captured through competitive tendering exercises and outsourcing was analysed and used as reference for setting EMSTF prices. The outsourcing expenditure increased from \$413 million in 1997-98 to \$1,551 million in 2012-13;
- (d) the annual review of the EMSTF's "Statement of Services and Charging Rates" took into account the results of price comparisons of tendering exercises conducted in the year, inflation as well as different service requirements;
- (e) the EMSTF would continue to set reasonable prices with a view to maintaining the quality of services for the benefit of its clients and the public. In setting the prices, the delivery of safe, reliable, efficient and quality services was more important than alignment with the market prices; and

DEVB

- (f) in the light of similar nature of work among contracts, results of post-tender analyses of competitive tendering exercises (see (b)(i) above) were applicable to similar work under other contracts. The EMSTF clients also made reference to market prices in negotiating service level agreements (SLAs — Note 9) with the EMSTF. Moreover, the EMSTF's outsourcing of services could also drive its prices towards the market prices.

2.13 Regarding the EMSTF's participation in competitive tendering exercises (see para. 2.12(b)(i)), Audit notes that, over the 17-year period from 1996-97 to 2012-13, the EMSTF had participated in 329 competitive tendering exercises for E&M services, of which 155 (47%) were successful. The total value of these 155 successful tenders was \$1,972 million, which only accounted for 3.4% of the EMSTF's total turnover of \$57,437 million during the 17-year period.

Note 9: *An SLA between the EMSTF and a user department incorporates the technical requirements, specifications and terms and conditions for the provision of EMSTF services.*

Financial and operation performance

2.14 Although the EMSTF informed Audit that it had reviewed the market prices through participating in competitive tendering exercises and outsourcing its work to outside contractors (see para. 2.12(b)), Audit could not find evidence showing that the EMSTF had made use of the information obtained from the tendering exercises and outsourcing to systematically compare and align EMSTF prices with the market prices.

2.15 In Audit's view, the EMSTF needs to take action to systematically compare and align EMSTF prices with the market prices because the Financial Secretary had directed as early as in December 1996 that the EMSTF should be able to match the commercial rates by 1999 (see para. 2.7). Besides, this arrangement will help achieve one of the trading funds' objectives that the EMSTF should promote greater efficiency by exposing its services to competition through price comparisons (see para. 1.2(c)(ii)), and will help it more effectively reflect its financial performance.

Lack of plan to gainfully use the retained earnings

2.16 The EMSTF has accumulated substantial retained earnings since its establishment, from \$104 million in 1996-97 to \$2,308 million in 2012-13. During the 17-year period, the EMSTF had paid dividends totalling \$3,945 million to the Government (see Table 5).

Table 5

**Retained earnings and cumulative dividends paid to the Government
(1996-97 to 2012-13)**

Year	Retained earnings (\$ million)	Cumulative dividends paid to Government (Note) (\$ million)
1996-97	104	45
1997-98	288	124
1998-99	517	222
1999-00	752	323
2000-01	1,086	466
2001-02	1,441	618
2002-03	1,372	754
2003-04	1,627	863
2004-05	1,749	1,085
2005-06	1,843	1,319
2006-07	1,960	1,576
2007-08	1,973	1,930
2008-09	1,946	2,323
2009-10	1,980	2,777
2010-11	2,108	3,185
2011-12	2,223	3,580
2012-13	2,308	3,945

Source: EMSTF records

Note: According to the 1996 Framework Agreement, the amount of dividends paid to the Government shall be determined by the Secretary for Financial Services and the Treasury. The EMSTF's dividend payout ratio increased from 30% (from 1996-97 to 2003-04) to 50% (from 2004-05 to 2012-13), and special dividends totalling \$1,200 million had been paid to the Government from 2004-05 to 2012-13. For 2013-14, the FSTB has set a dividend payout ratio of 100%.

Financial and operation performance

2.17 In June 2001, the FSTB informed the EMSTF that it could finance its capital investment from its retained earnings. In 2003, in response to the DEVB's request, the EMSTF conducted a review of the use of its retained earnings of \$1,441 million as of March 2002. According to the EMSTF, the review was conducted having regard to the business uncertainties underpinned by some external factors, such as tightening of government expenditure and pressure for price reductions. The review concluded that the retained earnings would be used to meet various requirements such as investments in the EMSTF's corporate computer system and human resources development. At a meeting in July 2007 on the financial monitoring of the EMSTF (see para. 1.12), the FSTB said that, in general, surplus funds in the EMSTF should be returned to the Government.

2.18 In June 2011, based on the FSTB's advice, the EMSTF made a placement of \$2,200 million with the Exchange Fund (managed by the Hong Kong Monetary Authority) for a six-year term. In March 2013, the FSTB informed the EMSTF that the dividend payout ratio should be increased to 100% of the profit for 2013-14.

2.19 In February and March 2014, the EMSTF informed Audit that:

- (a) since 2001, the EMSTF had been regularly reviewing the way to make the best use of the retained earnings for business development and would continue to do so. The DEVB and the FSTB also regularly reviewed the financial performance of the EMSTF, including its retained earnings;
- (b) in 2002, in view of the external factors underlining some major business uncertainties, EMSTF decided to utilise its retained earnings to strengthen its competitiveness and to develop businesses. From 2004-05 to 2009-10, the EMSTF contributed a total sum of \$400 million from its retained earnings as a special dividend for implementation of energy saving projects in government premises. From 2004-05 to 2012-13, special dividends totalling \$1,200 million had been paid out to the Government from the EMSTF's retained earnings; and
- (c) other than the need to meet the funding requirement for the EMSTF's capital expenditure for information technology projects, improvement works and replacement of vehicles and equipment, the retained earnings of \$2,308 million as of March 2013 could cover five months' operating expenditure of the EMSTF.

2.20 In Audit's view, the EMSTF needs to conduct a review to ascertain the amount of reserve and working capital required for its operation, including the amount of fund required for the acquisition and replacement of fixed assets in the near future. It should also return any surplus fund to the Government upon the maturity of the placement of \$2,200 million with the Exchange Fund in May 2017.

Audit recommendations

2.21 **Audit has recommended that the Director of Electrical and Mechanical Services should:**

- (a) **take action to systematically compare and align EMSTF prices with market prices; and**
- (b) **conduct a review to ascertain the amount of reserve required for the operation of the EMSTF and return any surplus fund to the Government.**

Response from the Administration

2.22 The Director of Electrical and Mechanical Services agrees with the audit recommendations. He has said that the EMSTF will continue to take action on the audit recommendations, and set reasonable prices in maintaining the quality of services for the benefit of its clients and the public.

2.23 The Secretary for Financial Services and the Treasury agrees with the audit recommendation in paragraph 2.21(b).

EMSTF efforts to seek business opportunities outside the government sector

2.24 According to the 1996 Framework Agreement, the EMSTF will bid for and win business in other markets as the opportunity arises (see para. 1.10(b)). In October 1998, in seeking legal advice on the legal status of the EMSTF, the EMSTF informed the Department of Justice that the EMSTF had to compete for survival upon untying, and might have to seek business opportunities outside the government-sector clientele.

Financial and operation performance

2.25 Furthermore, according to EMSTF Corporate and Business Plan for 1999-2000 to 2003-04:

- (a) the overall policy of setting up the EMSTF was to improve the efficiency of the EMSD in the delivery of E&M services through market competition; and
- (b) the EMSTF was required to compete against private-sector operators in the provision of services to government departments and public bodies. In order to survive, the EMSTF must remain competitive and explore new opportunities.

2.26 In March 2001, the DEVB informed the EMSTF that, in order to acquire a separate legal status for engaging in business and widening its scope of services, legislative amendments to the Trading Funds Ordinance might be needed. In the same month, after seeking legal advice, the EMSTF informed its Executive Board (see para. 1.11) that:

- (a) for the short term, the EMSTF would continue the present strategy to retain existing businesses and develop new ones in the public sector;
- (b) for the medium term, amendments should be made to the Trading Funds Ordinance to the effect that the EMSTF could expand the scope of services to include facilities management; and
- (c) for the long term, the EMSTF would keep in view the need for seeking a separate legal status having regard to the roll out of the untying programme relating to the EMSTF.

2.27 In June 2001, the EMSTF informed the DEVB that there was no urgency in pursuing the amendment to the Trading Funds Ordinance because it considered, among other things, that the perceived threats of business loss of the EMSTF could largely be avoided by means of administrative measures. In March 2014, the EMSTF informed Audit that:

- (a) the perceived threat of business loss in June 2001 was the difficulty to form a joint venture to bid for contracts involving non-E&M works; and

- (b) to address this difficulty, the EMSTF had sub-let the relevant work to sub-contractors or consultants with relevant expertise.

Areas for improvement

EMSTF clients confined to B/Ds and quasi-government bodies

2.28 Audit examination revealed that the EMSTF mainly derived its revenue from B/Ds and the HA. Table 6 shows the major clients (in terms of revenue) of the EMSTF in 2002-03 and 2012-13.

Table 6

**Major EMSTF clients
(2002-03 and 2012-13)**

Client	Revenue	
	2002-03 (\$ million)	2012-13 (\$ million)
(a) HA	676	907
(b) LCSD	485	646
(c) FEHD	226	281
(d) ArchSD	266	266
(e) HKPF	202	256
(f) GPA	220	222
(g) Others (Note)	1,247	2,065
Total	3,322	4,643

Source: EMSTF records

Note: These mainly included other B/Ds, the Airport Authority Hong Kong and LegCo.

Financial and operation performance

2.29 In 2012-13, the EMSTF derived \$4 million of revenue from private organisations, accounting for only 0.1% of its revenue. Examples of private-sector clients included:

- (a) **Company A.** The EMSTF acted as the sub-consultant for Company A (who was the main consultant to the ArchSD) in providing building services for public swimming pool complexes in Tung Chung and Tuen Mun, and construction of an annex building for a theatre (EMSTF revenue of \$2.2 million); and
- (b) **Company B.** The EMSTF charged the operating cost of a generator for a radio base station installed by Company B at a room located in government premises (which was managed by the GPA) on Green Island (EMSTF revenue of \$0.3 million).

2.30 In February 2014, the EMSTF informed Audit that:

- (a) since its establishment in 1996, it had been exploring new business opportunities in new areas, which included providing services to private-sector clients and expanding its E&M services to cover other E&M related services (such as information and communication technology) for the existing clients;
- (b) it had sought legal advice between 1999 and 2001 and considered that the EMSTF should not go beyond the scope of government service. In the event, the EMSTF focused on business development opportunities within the government sector. From 1997-98 to 2012-13, its annual business turnover increased from \$2.65 billion to \$4.64 billion; and
- (c) the objectives of private-sector participation in paragraph 2.29 were to facilitate the provision of EMSTF services to the public. They were exceptional because the EMSTF focused its business in the government sector.

2.31 Audit notes that the EMSTF may, having regard to the roll out of the untying arrangement, widen its scope of services after obtaining a separate legal status (see para. 2.26(c)). In Audit's view, in accordance with the 1996 Framework Agreement, the EMSTF needs to bid for and win business in markets other than B/Ds, government subvented or financially assisted agencies as opportunities arise (see para. 1.10(b)). In this connection, greater efficiency and cost-consciousness would be achieved by exposing EMSTF services to competition or to quasi-commercial pressures (see para. 1.3(b)). Furthermore, as the EMSTF may lose business if B/Ds diversify their acquisition of E&M services to other service providers, the EMSTF needs to explore business opportunities in other markets.

Audit recommendation

2.32 **Audit has recommended that the Director of Electrical and Mechanical Services should take action to explore business opportunities in markets other than B/Ds, government subvented or financially assisted agencies.**

Response from the Administration

2.33 The Director of Electrical and Mechanical Services agrees with the audit recommendation.

B/D efforts to acquire E&M services through competitive tendering

Untying arrangement of EMSTF services

2.34 According to Financial Circular No. 9/99 "Untying Departments from the Services of the EMSTF" issued in June 1999, upon untying from August 2002, user departments would be free to retain the services of the EMSTF or to choose alternative service providers to meet part or all of their E&M service needs (see para. 1.15(c)). Furthermore, Financial Circular No. 6/2001 "Use of Trading Fund Services" issued in August 2001 states that a Controlling Officer may choose to enter into an SLA with a trading fund direct, without recourse to competitive bidding, if he or she is clearly satisfied that:

Financial and operation performance

- (a) the trading fund is fully capable of delivering in a cost-effective manner specific services that his or her department needs; and
- (b) having regard to the circumstances of the case (such as the urgency or the special circumstances of the services required), inviting competitive bidding for the delivery of such services is not appropriate.

The Controlling Officer will be accountable for the decision on why competitive bidding is not appropriate.

Previous Audit Reports on B/Ds acquiring EMSTF services without competitive tendering

2.35 From 2001 to 2012, Audit had issued five Audit Reports which covered some B/Ds which had entered into SLAs with the EMSTF without conducting competitive tendering (see Appendix C).

Areas for improvement

B/Ds not conducting competitive tendering before obtaining EMSTF services

2.36 *Audit survey.* According to EMSTF Corporate and Business Plan for 2012-13 to 2016-17, about 75% of its business revenue was secured through SLAs for operation and maintenance services, with the remaining from ad hoc jobs and projects, and annual maintenance contracts. In December 2013 and January 2014, Audit conducted a user survey on the procurement of E&M services by major EMSTF clients through service agreements which were in force as of December 2008 and December 2013. The survey included six major EMSTF clients covering the HA and five B/Ds (namely the LCSD, the FEHD, the ArchSD, the HKPF and the GPA). In view of the fact that the HA is an autonomous body which has the discretion to choose its service providers, Audit analysis focused on the five B/Ds. The survey results are shown in Table 7.

Table 7

**Award of E&M service agreements exceeding the quotation limits
by the five B/Ds (Note 1)
(December 2008 and December 2013)**

B/D	As of December 2008				As of December 2013			
	Service agreement awarded				Service agreement awarded			
	through competitive tendering (Note 2)		to EMSTF through direct negotiation		through competitive tendering (Note 2)		to EMSTF through direct negotiation	
	No.	Estimated annual value (\$ million)	No.	Estimated annual value (\$ million)	No.	Estimated annual value (\$ million)	No.	Estimated annual value (\$ million)
LCSD	6 (Note 3)	55 (10%)	1	507 (90%)	6 (Note 4)	87 (13%)	1	571 (87%)
FEHD	2 (Note 5)	9 (5%)	2	161 (95%)	0	0 (0%)	3	222 (100%)
ArchSD	0	0 (0%)	2	169 (100%)	0	0 (0%)	4	187 (100%)
HKPF	0	0 (0%)	2	198 (100%)	0	0 (0%)	1	202 (100%)
GPA	0	0 (0%)	1	166 (100%)	0	0 (0%)	1	210 (100%)
Overall	8	64 (5%)	8	1,201 (95%)	6	87 (6%)	10	1,392 (94%)

Source: Audit survey

Note 1: According to Stores and Procurement Regulation 220 (updated in June 2013), the quotation limit for procuring stores, services and revenue contracts is \$1.43 million, and the quotation limit for procuring services for construction and engineering works is \$4 million. The number of service agreements refers to those in force as of December 2008 and December 2013.

Note 2: Some of the service agreements were awarded to the EMSTF and some to private service providers.

Note 3: The EMSTF had participated in 4 of the 6 tender exercises and won 1 service agreement.

Note 4: The EMSTF had participated in 2 of the 6 tender exercises and won 2 service agreements.

Note 5: The EMSTF had participated in the 2 tender exercises and won the 2 service agreements.

Financial and operation performance

2.37 For the LCSD, as of December 2013, seven E&M service agreements were in force (see Table 8 for details).

Table 8

**Seven E&M service agreements of the LCSD
(December 2013)**

Agreement particulars	Service agreement awarded through	Service provider	Estimated annual value (\$ million)
(a) Comprehensive E&M services for 1,700 LCSD venues	Direct negotiation	EMSTF	571
(b) Technical sound services for performing arts venues	Competitive tendering	A private company	53
(c) Technical services for Ko Shan Theatre	Competitive tendering	EMSTF	11
(d) Technical services for Hong Kong Science Museum and Hong Kong Space Museum	Competitive tendering	A private company	7
(e) Technical sound services for Hong Kong Coliseum and Queen Elizabeth Stadium	Competitive tendering	A private company	6
(f) Technical services for Hong Kong Museum of History and Hong Kong Heritage Museum	Competitive tendering	A private company	6
(g) Maintenance services for LCSD vehicles	Competitive tendering	EMSTF	4
Total			658

Source: LCSD records

2.38 The LCSD's SLA for comprehensive E&M services for 1,700 LCSD venues (item (a) in Table 8) at an estimated annual value of \$571 million expired on 31 March 2014. From October 2013 to March 2014, the EMSTF conducted direct negotiation with the LCSD and entered into a new SLA for three years commencing 1 April 2014, with an option of a further three-year term from 1 April 2017. In Audit's view, the LCSD needs to conduct competitive tendering in procuring E&M services for its venues as far as possible. In order to attract private service providers to participate in the tendering, the LCSD may consider splitting the service agreement covering all the 1,700 LCSD venues into service agreements covering different clusters of venues.

2.39 Audit survey revealed that major EMSTF clients mostly awarded their SLAs to the EMSTF through direct negotiation, instead of through competitive tendering. As of December 2013, in terms of contract value, except the LCSD of which 87% of its E&M service agreements had been awarded to the EMSTF through direct negotiation, the other four B/Ds, namely the FEHD, the ArchSD, the HKPF and the GPA, had awarded all their service agreements to the EMSTF through direct negotiation (see Tables 7 and 8). According to Audit survey, the LCSD, the FEHD, the ArchSD, the HKPF and the GPA provided the following reasons for concluding all or most of their E&M service agreements with the EMSTF without conducting competitive tendering:

- (a) ***Direct approach allowed under Financial Circular No. 6/2001.*** According to the Circular, a Controlling Officer might choose to enter into an SLA with a trading fund direct, without recourse to competitive bidding (the LCSD, the FEHD, the HKPF and the GPA);
- (b) ***Lack of expertise in tendering.*** B/Ds lacked the expertise in preparing tender specifications. Additional costs and efforts would also be involved in conducting tender exercises and contract arrangements (the LCSD and the FEHD);
- (c) ***Lack of capability in supervising private contractors.*** B/Ds lacked the capability to supervise and monitor the work of private contractors (the LCSD and the GPA);

Financial and operation performance

- (d) ***Difficulty in finding a private contractor for comprehensive services.*** It was difficult to find a private contractor to provide services for a comprehensive range of facilities and equipment, respond timely under emergency situations and deliver the required services in a cost-effective manner (the LCSD, the FEHD and the ArchSD);
- (e) ***Previous tendering experience.*** Competitive tendering for some services had been conducted in the past, but no tender was received from the private sector or the prices quoted by the EMSTF were the lowest (the FEHD and the GPA); and
- (f) ***Expertise of the EMSTF.*** The EMSTF had expertise in providing E&M services for a wide range of areas and systems of its clients, and could attend to emergency situations. Inviting competitive bidding for delivery of some services was not appropriate (the LCSD, the FEHD, the ArchSD and the GPA). The EMSTF was familiar with government policies and regulations, as well as facilities requiring maintenance (the ArchSD).

2.40 According to Stores and Procurement Regulation 126, in conducting procurement exercises, competition is a reliable safeguard against bidders overcharging and Controlling Officers should adopt open bidding as far as practicable to secure value for money procurement. Regarding the reasons quoted by the pertinent B/Ds for not conducting competitive tendering for E&M services on the lack of experience in drawing up tenders and supervising a contractor's work, it is relevant to note that the Efficiency Unit organised in 2002 various seminars and experience sharing sessions to assist B/Ds to prepare their specific tender specifications and resolve their difficulties in outsourcing services. Therefore, they should take action to enhance their expertise in these areas. Furthermore, according to Financial Circular No. 5/2001 "Guidelines for Trading Funds Bidding for Government Contracts" issued in August 2001, procuring departments may engage independent consultants to assist in the preparation of tender invitation documents and the design of tender evaluation processes. Moreover, B/Ds need to conduct competitive tendering upon the expiry of SLAs with the EMSTF because the EMSTF may not be the best service provider given that the business environment and market competitors may change over time.

2.41 In debating the motion of establishing the EMSTF in June 1996, some LegCo Members expressed the following views:

- (a) the rationale of establishing trading funds was to enable government departments to cater to the market and seek cost effectiveness by means of market operation, including the introduction of competition to increase the efficiency of their operations. Only those government departments which organised activities and provided services of a commercial nature should be operated under trading funds; and
- (b) unlike other trading funds, the EMSD acted as a service provider to government departments and quasi-government bodies, and the majority of its services were easily available in the private sector. If the EMSD did not have to compete in the market, it would never attain its maximum efficiency.

2.42 Audit is concerned that, 17 years after its establishment, the EMSTF still relies primarily on B/Ds and some quasi-government bodies for its business, and B/Ds continue to rely predominantly on the EMSTF to supply E&M services. In Audit's view, in order to secure value for money, B/Ds need to conduct competitive tendering in procuring their E&M services in future as far as possible. The FSTB also needs to remind B/Ds of the need to conduct competitive tendering in procuring E&M services in future as far as possible.

Audit recommendations

2.43 **Audit has recommended that the Director of Leisure and Cultural Services, the Director of Food and Environmental Hygiene, the Director of Architectural Services, the Commissioner of Police and the Government Property Administrator should:**

- (a) **conduct competitive tendering in procuring E&M services in future as far as possible;**
- (b) **provide training to their staff to enhance their expertise in preparing tender specifications, and supervising and monitoring the work of private contractors; and**
- (c) **engage consultants, if necessary, to assist in the tender preparation and evaluation.**

Financial and operation performance

2.44 **Audit has also *recommended* that the Secretary for Financial Services and the Treasury should remind B/Ds of the need to conduct competitive tendering in procuring E&M services in future as far as possible.**

Response from the Administration

2.45 The Director of Leisure and Cultural Services agrees with the audit recommendations in paragraph 2.43. She has said that the LCSD has carried out tender exercises where appropriate, and would continue to do so as far as practicable.

2.46 The Director of Food and Environmental Hygiene agrees with the audit recommendations in paragraph 2.43. She has said that the FEHD would review the procurement of E&M services before the expiry of the SLAs with the EMSTF.

2.47 The Director of Architectural Services agrees with the audit recommendations in paragraph 2.43. He has said that the ArchSD will conduct competitive tendering in procuring E&M services in future as far as possible.

2.48 The Commissioner of Police agrees with the audit recommendations in paragraph 2.43.

2.49 The Government Property Administrator agrees with the audit recommendations in paragraph 2.43. He has said that the GPA:

- (a) has a mechanism to conduct competitive tendering in procuring E&M services and will continue its implementation as far as practicable; and
- (b) will consider providing staff training on the preparation of tender specifications and engaging consultants for tender preparation and evaluation.

2.50 The Secretary for Financial Services and the Treasury agrees with the audit recommendation in paragraph 2.44.

PART 3: MANAGEMENT OF OVERTIME WORK

3.1 This PART examines the EMSTF's management of staff overtime work.

Overtime work

3.2 According to the Civil Service Regulations (CSRs):

- (a) overtime is work undertaken over and beyond an officer's conditioned hours, which may be undertaken only when it is unavoidable;
- (b) overtime must be authorised in advance and should be strictly controlled, properly supervised, and kept to the absolute minimum compatible with operational requirements. Regular or excessive overtime is not in the interest of staff or the service and should be avoided as far as possible and strictly limited;
- (c) government departments should set a ceiling for the overtime hours, as follows:
 - (i) normally at 60 hours in a month which an officer may undertake or at a lower level if the departments see fit; and
 - (ii) normally at 180 uncompensated overtime hours accumulated at any one time by an officer or at a lower level if the departments see fit;
- (d) overtime work performed should normally be compensated by time off in lieu. Granting of time off is subject to exigencies of service; and

Management of overtime work

- (e) where time off in lieu is, or is likely to be, impracticable within one month of the date on which the overtime is worked, an overtime allowance (Note 10) may be paid.

NCSC staff not entitled to overtime allowance

3.3 According to CSB Circular No. 2/2001 “Employment of NCSC Staff” issued in January 2001, apart from the basic pay, NCSC staff are not entitled to any of the civil service job-related cash allowances, overtime allowance and acting allowances. The Circular also states that overtime work done in excess of the normal hours of work should be compensated by time off in lieu.

Pay for overtime work of NCSC staff of EMSTF

3.4 Regulations, rules and guidelines promulgated by the CSB relating to civil servants and NCSC staff are applicable to the EMSTF.

Exchange of views of the EMSTF and the CSB in March 2001

3.5 In March 2001, the EMSD sought the CSB’s confirmation of its understanding that, in order to enable it to have more flexibility in staff deployment in providing quality and efficient service to its clients, the EMSD had the discretion to remunerate NCSC staff at an hourly rate, where necessary, in addition to the monthly salary paid. In response, the CSB advised the EMSD that:

- (a) under the NCSC scheme, Heads of Departments were given the discretion to decide on the way their NCSC staff were remunerated, i.e. on an hourly, weekly, or monthly basis; and

Note 10: *Except for officers in certain ranks or grades such as those in administrative and professional grades, officers in ranks whose maximum pay point is on or below Point 25 and whose minimum pay point is on or below Point 19 of the Master Pay Scale, and officers in ranks under Model Scale 1 are eligible for overtime allowance. The normal hourly rate of overtime allowance is 1/140 of an officer’s monthly salary. For daily-rated staff, the normal rate is one and a half times of the hourly pay.*

- (b) Heads of Departments were held fully accountable for the funding and employment of NCSC staff, and were responsible for justifying or defending the employment of NCSC staff when questioned.

EMSTF’s creation in 2001 of “hourly-rated pay for additional work in addition to monthly salary” for NCSC staff

3.6 In May 2001, the EMSTF issued internal guidelines stating that, in addition to the monthly salary, exceptional approval might be given for five categories of technical NCSC staff (namely Contract Assistant Inspector, Contract Works Supervisor, Technician, Craftsman and Contract Workman) to be remunerated at an hourly rate (Note 11) for additional work when the granting of time off in lieu was not practicable. The EMSTF also laid down control guidelines and procedures for applications and approvals of such hourly-rated pay. From 2002 to 2013, the EMSTF granted approvals for additional 17 categories of NCSC staff (including Clerical Support Assistant, Management Support Officer and Senior Information Technology Officer) to be remunerated at an hourly rate for additional work. As of December 2013, 895 NCSC staff of the EMSTF had been approved to receive such hourly-rated pay. In 2012-13, the hourly-rated pay to NCSC staff for additional work amounted to \$22 million.

Audit views on “hourly-rated pay for additional work in addition to monthly salary”

3.7 In Audit’s view, the EMSTF’s “hourly-rated pay for additional work in addition to monthly salary” for NCSC staff is essentially the same as overtime allowance. Therefore, in this Audit Report, overtime allowance is used to cover both the overtime allowance of civil servants and “hourly-rated pay for additional work in addition to monthly salary” for NCSC staff.

Note 11: *The hourly rate for additional work (essentially the same as overtime allowance — see para. 3.7) of an officer is equivalent to his average hourly rate (monthly salary divided by the monthly normal working hours).*

Management of overtime work

Overtime allowance in recent years

3.8 As of December 2013, the EMSTF had 4,768 staff, comprising 3,341 civil servants and 1,427 NCSC staff. Table 9 shows overtime allowance paid to EMSTF staff in the past three years.

Table 9

**Overtime allowance paid
(2010-11 to 2012-13)**

Particulars	Civil servants	NCSC staff
(a) Overtime allowance paid in 2010-11	\$106 million	\$22 million
(b) Overtime allowance paid in 2011-12	\$112 million	\$21 million
(c) Overtime allowance paid in 2012-13	\$117 million	\$22 million
(d) Number of staff as of December 2013	3,341 staff	1,427 staff
(e) Number of staff claimed to be eligible for overtime allowance as of December 2013 (see Note 10 to para. 3.2(e))	2,708 staff (81%)	895 staff (63%) (Note)
(f) Average overtime allowance per eligible staff in 2012-13 [(f)=(c)÷(e)]	\$43,205	\$24,581

Source: Audit analysis of EMSTF records

Note: According to CSB Circular No. 2/2001, NCSC staff are not entitled to overtime allowance (see para. 3.3).

3.9 In February 2014, the EMSTF informed Audit that:

- (a) in 2012-13, each eligible civil servant on average earned overtime allowance of \$831 for working 5.9 overtime hours a week;
- (b) in the same year, each eligible NCSC staff on average earned overtime allowance of \$473 for working 5.6 overtime hours a week; and
- (c) in 2012-13, the total overtime allowance of \$139 million (\$117 million plus \$22 million) represented 6.6% of the total EMSTF staff cost of \$2,095 million. The percentages in 2010-11 and 2011-12 were 7.1% and 6.8% respectively.

3.10 The EMSTF has promulgated circulars and guidelines for the administration and control of overtime for civil servants and NCSC staff. According to EMSTF guidelines on application and approval of overtime work issued in May 2009:

- (a) officers should well be aware that overtime work shall be undertaken when it is strictly unavoidable; and
- (b) for overtime work in excess of 40 hours but not exceeding 60 hours a month, and for overtime work in excess of 60 hours a month, approval should be sought from an Assistant Director and the Deputy Director of the EMSTF respectively.

Areas for improvement

Granting of overtime allowance to NCSC staff inconsistent with CSB policy and guidelines

3.11 CSB Circular No. 2/2001 (see para. 3.3) has stipulated that NCSC staff should not be entitled to overtime allowance. This guideline applies to the NCSC staff of the EMSTF.

3.12 In March 2014, the CSB informed Audit and the EMSTF that:

- (a) CSB Circular No. 2/2001 issued in January 2001 provided guidelines on the employment of NCSC staff. The Circular and the guidelines in respect of compensation for overtime work therein remained valid today; and
- (b) the CSB's advice that "Heads of Departments are given the discretion to decide on the way their NCSC staff are remunerated" (see para. 3.5(a)) did not pinpoint overtime work. It merely reiterated the general principle that Heads of Departments had the authority to determine how NCSC staff should be remunerated for the hours of work stipulated in the appointment letter. In any event, the advice should be read in conjunction with and interpreted in the context of CSB Circular No. 2/2001. Granting overtime pay to NCSC staff was inconsistent with CSB policy and guidelines. Such being the case, the EMSD should, and had been advised to, rectify the situation and consider the need to change, and if so, the basis on which its NCSC staff would be remunerated within a reasonable timeframe.

3.13 In the same month, after noting the CSB's views in paragraph 3.12, the EMSTF informed Audit and the CSB that:

- (a) EMSTF management was aware of the restriction laid down in CSB Circular No. 2/2001. However, the EMSTF's NCSC technical staff (over 180 in 2001) were very often required to perform shift duties and work long hours to meet operational requirements because of the need to maintain or restore public services during and outside office hours. It

was generally impractical to recompense the overtime work of the NCSC staff with time off in lieu given the EMSTF's tight manpower and the unavoidable nature of the work. EMSTF staff had expressed concerns over the condition of services of NCSC staff, including lack of fair payments for their work rendered beyond the normal working hours. The EMSTF management also noted that section managers had difficulties to manage their workforce in carrying out duties. Moreover, since the EMSTF had all along been conscientious in keeping tight control over the growth of manpower, it was unable to solve the problem simply by an increase in staff size;

- (b) the EMSD therefore approached the CSB in 2001 to look for an appropriate way to tackle the issue (see para. 3.5). Based on the CSB's view then given (see para. 3.5(a)), the EMSTF management considered that it had the discretion to remunerate NCSC staff at hourly-rated pay in addition to the monthly salary. On the understanding that overtime allowance could not be granted to NCSC staff, the EMSTF worked out a remuneration package with hourly-rated pay for additional work for NCSC staff in addition to their monthly salary. The pay was fair compensation for work done. The EMSTF management then believed that the hourly-rated pay was not overtime allowance under CSRs 670 to 672 (Note 12), as they were different in the calculation method. The hourly-rated pay scheme had been in place since 2001 and had been a cost-effective way to solve the EMSTF's manpower problem and to address its special operation needs; and
- (c) as revealed from the CSB's advice in March 2014 (see para. 3.12), it was unfortunate that the EMSTF management's understanding and interpretation of the exchange of views with the CSB back in 2001 (see para. 3.5) were different from those of the CSB.

Note 12: *CSRs 670 to 672 specify the types of officers eligible for overtime allowance and the method of remunerating staff for working long overtime hours.*

Management of overtime work

3.14 The CSB has clearly stated that granting overtime pay to NCSC staff of the EMSTF is inconsistent with the CSB policy and guidelines (see para. 3.12(b)). In this connection, the EMSTF agrees that it was unfortunate that its understanding and interpretation of the exchange of views with the CSB back in 2001 were different from those of the CSB (see para. 3.13(c)). In Audit's view, in order to comply with the Government's policy on granting allowance to NCSC staff as promulgated in CSB Circular No. 2/2001, the EMSTF needs to take action to rectify the situation. The EMSTF also needs to comply with the CSB guidelines for compensating staff overtime work in future.

EMSTF approval with retrospective effect given for some NCSC staff to receive overtime allowance

3.15 In August 2007, the EMSTF created a new NCSC rank of Worker (Cremation Service). Audit examination revealed that, from August 2007 to January 2014 (6 years and 6 months), a total of 30 Workers (Cremation Service) had been granted overtime allowance amounting to \$565,000. However, Audit noted that, as of January 2014, the EMSTF had not given approval for this rank of officers to receive overtime allowance. On 21 February 2014, after noting Audit's observation, the Director of Electrical and Mechanical Services approved the granting of overtime allowance to Workers (Cremation Service) with retrospective effect from August 2007.

3.16 In March 2014, the EMSTF informed Audit that:

- (a) the job nature of the Workers (Cremation Service) justified hourly-rated pay and it was only due to an oversight that approval had not been sought before; and
- (b) the Director of Electrical and Mechanical Services was therefore duty bound to exercise his discretion to give the covering approval for the work already done by the workers concerned since August 2007.

- 3.17 In the same month, the CSB informed Audit and the EMSTF that:
- (a) given that NCSC staff’s overtime work should not be compensated by pay as a matter of policy, the EMSD should not have granted overtime allowance to NCSC staff in the first place; and
 - (b) therefore, there should be no question of giving approval, retrospective or not, to the grant of overtime allowance.

Similar to the granting of overtime allowance to NCSC staff (see para. 3.14), Audit considers that the EMSTF needs to take action to comply with CSB Circular No. 2/2001 in compensating staff overtime work.

Overtime work largely recompensed by overtime allowance

3.18 In 2012-13, the total overtime allowance paid to civil servants of all B/Ds accounted for under the General Revenue Account amounted to \$253 million. In the same year, overtime allowance paid to civil servants under the EMSTF (not accounted for in the General Revenue Account) was \$117 million, representing 46% of \$253 million.

3.19 Audit examination revealed that, in 2012-13, a high percentage of EMSTF overtime work was recompensed by overtime allowance, as follows:

EMSTF Staff	Total overtime work in 2012-13 (hour)	Overtime work recompensed by allowance (hour)	Overtime work recompensed by time off in lieu (hour)
Civil servants	837,318 (100%)	803,647 (96%)	33,671 (4%)
NCSC staff	260,305 (100%)	234,163 (90%)	26,142 (10%)

Management of overtime work

However, according to CSR, overtime work performed should normally be compensated by time off in lieu (see para. 3.2(d)). In addition, according to CSB Circular No. 18/2000 “Guidelines on Control and Administration of Overtime” issued in November 2000, time off is granted preferably before a staff takes his earned leave, unless the staff concerned has accumulated the maximum amount of earned vacation leave permissible under the relevant CSR. The CSB Circular further states that, where the problem is serious, Heads of Departments must review the overtime situation at least annually with a view to identifying any problem areas and taking rectification measures. In Audit’s view, apart from the fact that NCSC staff should not be entitled to overtime allowance (see para. 3.3), the EMSTF needs to conduct a review of the high percentages of overtime work being recompensed by overtime allowance instead of time off in lieu.

Some staff continuously performed long hours of overtime work

3.20 Audit examination revealed that, for the 12 months from November 2012 to October 2013, 116 civil servants and 9 NCSC staff each performed overtime work in excess of 40 hours every month during the period. These 125 officers each on average performed 47 to 62 hours of overtime work a month during the period (equivalent to 11 to 14 hours of overtime work a week, or 24% to 31% of the normal working hours in a 45 working-hour week). EMSTF approvals had been given for the overtime work. In February 2014, the EMSTF informed Audit that these 125 officers having long hours of overtime work a month represented only 3.5% of all 3,603 EMSTF staff eligible for receiving overtime allowance (2,708 civil servants and 895 NCSC staff — see Table 9 in para. 3.8).

3.21 Furthermore, Audit notes that, of the 125 officers, 9 civil servants performed over 60 hours of overtime work in one or more months (see Table 10).

Table 10

**Overtime work of 9 officers
(November 2012 to October 2013)**

Officer	Overtime work exceeding 60 hours in a month	Average monthly overtime work (hour)
Officer A	64 hours in March 2013	55
Officer B	61.5 hours in September 2013	57
Officer C	62 hours in February 2013	58
Officer D	63.5 hours in August 2013	59
Officer E	66 hours in September 2013	59
Officer F	66.5 hours in September 2013	59
Officer G	63.5 hours in February 2013 and 67.5 hours in April 2013	59
Officer H	67.5 hours in February 2013 and 66.5 hours in March 2013	60
Officer I	68 hours in December 2012, 69 hours in February 2013 and 75.5 hours in March 2013	62

Source: Audit analysis of EMSTF records

3.22 According to CSR, regular or excessive overtime work is not in the interest of staff or the service and should be avoided as far as possible and strictly limited (see para. 3.2(b)). Furthermore, as stated in CSB Circular No. 18/2000:

- (a) habitual overtime work is undesirable, and excessive or regular overtime should be discouraged as far as possible; and
- (b) when overtime work becomes a regular pattern of work, management should review the work patterns and consider alternative methods of deploying staff.

Management of overtime work

- 3.23 In February and March 2014, the EMSTF informed Audit that:
- (a) overtime work covered both unpredicted and planned activities to meet clients' needs, and they were strictly unavoidable. The duties were essential, must be performed, and could not be performed by another officer at that time. Such duties included emergency work, attendance to breakdown of essential machinery, equipment, systems and plants, and special work requested by clients. It was impractical to recompense the overtime work by time off in lieu in view of the manpower constraints;
 - (b) the granting of overtime approval was subject to stringent control of the EMSTF. EMSTF division heads had been paying personal attention to ensure that overtime work was kept to the absolute minimum compatible with operational requirements; and
 - (c) the EMSTF conducted annual reviews in accordance with CSB Circular No. 18/2000. According to the review conducted in 2012, the amount of overtime allowance paid to civil servants for 2010-11 was contained at a level of \$106 million, despite the limited manpower resources and increase in service demand.

3.24 In Audit's view, the EMSTF needs to closely monitor the situation and step up measures to prevent habitual and long hours of overtime work of its staff.

Officers allowed to take vacation leave instead of time off for compensating overtime work

3.25 According to CSB Circular No. 18/2000, time off for overtime work is granted preferably before a staff takes his earned leave, unless the staff concerned has accumulated the maximum amount of earned vacation leave permissible under the relevant CSR (Note 13).

Note 13: *Under the CSR, there is a ceiling on the amount of earned vacation leave an officer can accumulate which differs among officers with different terms of employment. Upon reaching the accumulated leave ceiling, any leave earned by an officer is forfeited.*

3.26 From November 2012 to October 2013, a total of 34 civil servants of the EMSTF performed overtime work of at least 55 hours every month during the period. Audit examination revealed that, of these 34 civil servants, 25 (74%) had been approved to take vacation leave during the period while they had uncompensated overtime work balance, and at the same time their vacation leave balance had not reached the maximum levels (see Case 1 for an example). In February 2014, the EMSTF informed Audit that these 25 civil servants represented 0.9% of all 2,708 civil servants eligible for receiving overtime allowance as of December 2013.

Case 1

1. The EMSTF records the overtime-work hours of officers in a computer system. At the month end, overtime-work hours of an officer which have not been compensated by time off in lieu may be recompensed by overtime allowance, or carried forward to the next month.

2. Officer J performed 58 hours of overtime work from 1 to 26 August 2013. On 26 August 2013, in addition to the 58 hours of overtime work earned in the month, he also had 23 hours of time-off balance carried forward from the previous months. Instead of taking time off from the 81 (58 plus 23) hours of time-off balance, he was approved to take vacation leave on 27 and 28 August 2013 (totalled 18 working hours). Before he took his vacation leave on 27 August 2013, his leave balance had not reached the maximum level.

Audit comments

3. According to CSB Circular No. 18/2000 (see para. 3.25), Officer J should preferably have been granted time off on 27 and 28 August 2013 instead of vacation leave.

Source: Audit analysis of EMSTF records

In Audit's view, the EMSTF needs to take measures to ensure that a staff takes time off for any uncompensated overtime hours accumulated preferably before taking vacation leave, unless his accumulated leave balance has reached the maximum level.

Audit recommendations

3.27 **Audit has *recommended* that the Director of Electrical and Mechanical Services should:**

- (a) **take action to rectify the granting of overtime allowance to NCSC staff which is inconsistent with CSB policy and guidelines;**
- (b) **comply with the CSB guidelines on compensating staff overtime work in future;**
- (c) **conduct a review of the high percentages of overtime work being recompensed by overtime allowance instead of time off in lieu and take necessary remedial action;**
- (d) **closely monitor and take measures to prevent habitual and long hours of overtime work of some EMSTF staff; and**
- (e) **take measures to ensure that time off for any uncompensated overtime hours accumulated is granted preferably before a staff takes his earned leave, unless the staff concerned has accumulated the maximum amount of earned vacation leave permissible under the relevant CSR.**

Response from the Administration

3.28 The Director of Electrical and Mechanical Services agrees with the audit recommendations. He has said that the EMSTF will:

- (a) take action to rectify the granting of overtime allowance to NCSC staff and consider the need to change the arrangement within a reasonable timeframe, and if so, the basis on which EMSTF's NCSC staff should be remunerated on a fair basis, having regard to the operational need of the services; and

- (b) review NCSC staff remuneration arrangement with the CSB including extending their normal work hours and drawing up a fair payment arrangement for them.

3.29 The Secretary for Development has said that the EMSTF should work with the CSB to review how NCSC staff should be paid for overtime work performed, having regard to the particular operational need of the EMSTF in providing critical public services.

3.30 The Secretary for the Civil Service has said that:

- (a) the CSB considers it appropriate and reasonable for the EMSTF to stop making overtime payments after it has reviewed the existing arrangements and drawn up a new remuneration package for its serving and future NCSC staff within a reasonable timeframe. The CSB is mindful of the likely strong sentiments of the staff concerned; and
- (b) should the EMSTF envisage long working hours for its staff on a regular basis, consideration may be given to engaging more full-time or part-time NCSC staff, seeking resources for the creation of civil service posts provided that their permanent service need could be established, revising the contractual work hours and pay of its existing NCSC staff through contract variations, or any combination of the above options.

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

- (a) the grant of overtime allowance to NCSC staff of the EMSTF since 2001 could be considered an unfortunate exception to the policy of the CSB as set out in CSB Circular No. 2/2001; and
- (b) if the EMSTF envisages the need for extensive overtime work, it may wish to discuss with the CSB on longer-term options available, such as increasing the number of NCSC staff and revising the remuneration basis for NCSC staff in future.

PART 4: RELEASE OF EMSD SITES

4.1 This PART examines actions taken by the EMSD and other B/Ds on releasing a site at Caroline Hill Road in Causeway Bay (CWB Site) and a site at Sung Wong Toi (SWT Site) to the Lands D for disposal.

Relocation of EMSD Headquarters

4.2 In 1966, the Government allocated CWB Site with an area of 16,000 square metres (m²) to the EMSD for use as its Headquarters and other uses. An office block (for accommodating the EMSD Headquarters), a vehicle maintenance workshop (vehicle workshop), E&M maintenance workshops (collectively referred to as a non-vehicle workshop) and ancillary supplies stores were provided at CWB Site. In addition, the EMSD had also been allocated SWT Site and another site at Kowloon Bay (Kowloon Bay Site) for different purposes (see Table 11).

Table 11

**Three EMSD sites
(1966 to 2005)**

Site	Use	Site area (m²)	Floor area (m²)
(a) CWB Site	EMSD Headquarters	16,000	29,329
(b) SWT Site	Regional depot	24,000	47,100
(c) Kowloon Bay Site	Vehicle servicing station	4,152	4,525
Total		44,152	80,954

Source: EMSD records

4.3 In 1994, the Government conducted a review of the use of government sites. The review found that CWB Site was under-utilised and, in order to achieve more economical land use, the Site should be released for redevelopment. In July 1999, the GPA (Note 14) proposed to relocate the EMSD Headquarters to the former Hong Kong Air Cargo Terminal 2 Building at Kai Tak (Kai Tak Site). Kai Tak Site covers an area of 16,708 m² providing a floor area of 81,800 m². In August 1999, the EMSD accepted the proposal, subject to an arrangement to retain a small workshop on Hong Kong Island to provide essential and emergency services to its clients.

4.4 In June 2001, the LegCo Finance Committee approved funding of \$878.9 million for reprovisioning EMSD facilities at CWB Site, SWT Site and Kowloon Bay Site to Kai Tak Site.

4.5 In 2005, after the completion of the reprovisioning works, the EMSD Headquarters at CWB Site, the regional depot at SWT Site and the vehicle servicing station at Kowloon Bay Site were relocated to Kai Tak Site. From May 2005 to March 2014, part of CWB Site had been used as EMSD Hong Kong Depot, and some floor areas had been used by some B/Ds.

Note 14: *In searching for sites for use by B/Ds, the GPA will enlist the assistance of the PlanD and the Lands D.*

Release of EMSD sites

Release of Kowloon Bay Site

4.6 A chronology of key events relating to the release of Kowloon Bay Site for development is as follows:

Month	Key event
(a) October 2006	The EMSD commenced the contamination assessment.
(b) June to December 2011	The EMSD carried out the decontamination works.
(c) February 2012	The Environmental Protection Department (EPD) approved the remediation report (Note).
(d) April 2013	The Minor Building Works Committee (chaired by the Director of Architectural Services) approved funding of \$13.5 million for carrying out the demolition works.
(e) July 2013	The EMSD commenced the demolition works which were targeted for completion in December 2014. The Site would be handed over to the Lands D for development thereafter.

Note: Under established procedures, the EMSD was required to assess the level of contamination of Kowloon Bay Site (which had been used as a vehicle workshop) before handing over the Site to the Lands D. In this connection, the EMSD was required to submit a remediation report (documenting the remediation actions) for the EPD's approval.

Areas for improvement

Long time taken in releasing SWT Site for development

4.7 A chronology of key events relating to the release of SWT Site for development is as follows:

Month	Key event
(a) October 2006	The EMSD commenced the contamination assessment.
(b) August 2011 to September 2012	The EMSD carried out the decontamination works.
(c) December 2012	After approval of the remediation report by the EPD, the EMSD commenced the demolition works.
(d) November 2013	The DEVB issued a Project Definition Statement to the ArchSD, which specified the requirements and justifications for a proposed project for a public housing development and other designated uses on the site. The DEVB also stated that 11,500 m ² (48%) of the total site area of 24,000 m ² would be handed over to the Lands D for development in 2019.
(e) February 2014	The EMSD handed over 12,500 m ² (52%) of the total site area to the Civil Engineering and Development Department for constructing a sewerage pumping station.

Release of EMSD sites

4.8 In February and March 2014, the EMSD and the ArchSD informed Audit that:

EMSD

- (a) the EMSD had been working with the concerned B/Ds for releasing SWT Site to suit the required land sale programme. It would rely on the ArchSD for carrying out the demolition works on the remaining part of SWT Site, and the ArchSD was conducting a Technical Feasibility Study for carrying out the demolition works. It had to bid funding for the demolition works through the resource allocation process;
- (b) in September 2005, the Lands D requested the EMSD, in collaboration with the GPA, to invite interested departments to take up SWT Site on a temporary basis pending the confirmation on the permanent land use. Since the relocation of the EMSD regional depot to Kai Tak Site in 2005, SWT Site had been temporarily used by different B/Ds. The EMSD would continue to consider further temporary usage requests until the remaining part of SWT Site had to be vacated for demolition works; and

ArchSD

- (c) since receiving the Project Definition Statement (see item (d) in para. 4.7) in November 2013 for the demolition of the remaining structures in SWT Site, the ArchSD had commenced the preparation of the Technical Feasibility Study and planned to complete the study by mid-March 2014 for the DEVB's approval. Based on the present findings, it was feasible to complete the demolition works and hand over the remaining part of SWT Site to the Lands D by early 2019.

Audit is concerned that half of SWT Site would only be released and handed over to the Lands D for development in 2019, 14 years after the moving out of the EMSD regional depot from the Site in 2005. In Audit's view, the EMSD, in collaboration with the ArchSD, needs to expedite action to complete the demolition works and return the remaining part of SWT Site to the Lands D for development as soon as possible.

Long time taken in releasing CWB Site for development

4.9 In seeking funding for reprovisioning EMSD facilities in June 2001 (see para. 4.4), the Government informed LegCo that it would release CWB Site in 2004-05. In December 2012, the PlanD informed the Committee on Planning and Land Development (Note 15) that CWB Site would be targeted for disposal in 2013-14 to meet the land demand for office and commercial use. According to the EMSD, CWB Site would be handed over to the Lands D for disposal after relocation of the EMSD Hong Kong Depot in May 2014. In the 2014-15 Budget published in February 2014, the Administration stated that it would complete the land use and traffic impact study of CWB Site as soon as possible for the provision of more commercial floor area in Causeway Bay. Appendix D shows the chronology of the key events relating to the release of CWB Site for development.

4.10 Audit notes that CWB Site would only be released for development ten years later than the original target date of 2004-05. In Audit's view, the delay in releasing CWB Site for development is unsatisfactory because:

- (a) as revealed in the 1994 review (see para. 4.3), CWB Site had been under-utilised and should be redeveloped. There is a significant opportunity cost in deferring for ten years to release CWB Site for better beneficial use. In this connection, in April 2001, the DEVB informed the then LegCo Panel on Planning, Lands and Works (now Panel on Development) that the disposal of CWB Site, SWT Site and Kowloon Bay Site would generate a revenue of \$4 billion; and
- (b) if CWB Site of 16,000 m² in a prime area of Hong Kong had been released to the Lands D for disposal earlier, it might have been put into beneficial temporary use before implementation of a development plan for the Site, including use by other B/Ds or other suitable parties outside the Government under short-term tenancies.

Note 15: *The Committee is chaired by the Secretary for Development and is responsible for considering and reviewing policies on production, acquisition, use and land disposal.*

Release of EMSD sites

4.11 In February and March 2014, the EMSD and the DEVB informed Audit that:

EMSD

- (a) the projection of releasing CWB Site in 2004-05 was not made by the EMSD. The target site releasing date had apparently not taken into account the time required for carrying out the decontamination and demolition works, and for obtaining related funding approval. The delay in releasing CWB Site was due to numerous reasons such as late availability of a reprovisioned EMSD Hong Kong Depot, which were beyond the EMSD's control;
- (b) the EMSD had taken a proactive role and made the best effort to realise the then land development programme and had been making every endeavour to release CWB Site as early as possible. In order to advance the land disposal date, in January 2011, the EMSD proposed to the Lands D to include the decontamination and demolition works in the land sale conditions and require the future developer to carry out the works. The proposal was supported by the DEVB and agreed by the Lands D;

DEVB

- (c) the proposed target date for the release of CWB Site in 2004-05 was in response to a proposed land sale for the Site scheduled under the Programme of the Steering Committee on Land Supply for Housing (HOUSCOM — Note 16). However, due to evolving considerations and priorities, the proposed inclusion of CWB Site for land sale had been deferred; and
- (d) the release date of 2004-05 for CWB Site stated in the funding paper submitted to LegCo in June 2001 (see para. 4.9) was not committed by the EMSD, but was only a reference to a target date of the HOUSCOM Programme. The inclusion of any site in a land sale programme was not under the control or influence of the EMSD. Furthermore, the statutory and procedural requirements for the release of land were not under the ambit or management of the EMSD.

Note 16: *HOUSCOM is chaired by the Financial Secretary.*

4.12 In view of the ten-year slippage in releasing CWB Site for development vis-à-vis the date of site release stated in the funding paper submitted to LegCo in June 2001, Audit considers that the DEVB needs to inform, in collaboration with the EMSD, the LegCo Panel on Development of the slippage and the underlying reasons.

Audit recommendations

4.13 **Audit has *recommended* that the Director of Electrical and Mechanical Services should, in collaboration with the Director of Architectural Services, expedite action to complete the demolition works of SWT Site and return the remaining half of the Site to the Lands D for development as soon as possible.**

4.14 **Audit has also *recommended* that the Secretary for Development should, in collaboration with the Director of Electrical and Mechanical Services, inform the LegCo Panel on Development of the ten-year slippage in releasing CWB Site for development vis-à-vis the time stated in the funding application submitted to LegCo in June 2001.**

Response from the Administration

SWT Site

4.15 The Director of Electrical and Mechanical Services and the Director of Architectural Services agree with the audit recommendation in paragraph 4.13. The Director of Architectural Services has said that the ArchSD will continue to provide the necessary assistance to the EMSD to expedite completion of the demolition works at SWT Site.

4.16 The Secretary for Financial Services and the Treasury has said that the EMSD has to bid for resource for the demolition works at SWT Site, and as no funding application for the demolition works for the remaining part of SWT Site has been submitted, funding availability was not an issue relating to the delay in the release of the whole SWT Site.

CWB Site

4.17 The Secretary for Development agrees with the audit recommendation in paragraph 4.14. He has said that:

- (a) CWB Site has been reserved internally for other uses over the past years. As mentioned in the 2014-15 Budget, the DEVB is reviewing the way to release the Site as soon as possible; and
- (b) the DEVB will report to the LegCo Panel on Development of the progress in due course.

4.18 The Government Property Administrator has said that the GPA stands ready to assist the EMSD to release the latter's sites for development.

PART 5: PERFORMANCE REPORTING

5.1 This PART examines the performance reporting of the EMSTF.

Background

Key performance indicators

5.2 In its annual Corporate and Business Plan submitted to the DEVB (see para. 1.10(c)), the EMSTF set targets and reported the achievement of the targets on 13 key performance indicators (KPIs). Table 12 shows the achievement of the KPIs in 2011-12 and 2012-13. The EMSTF did not meet two targets (namely new business and growth of business, and awards for staff suggestion scheme proposal) in 2011-12, and it met all targets in 2012-13.

Performance reporting

Table 12
Key performance indicators
(2011-12 and 2012-13)

KPI (Unit)	2011-12		2012-13	
	Target	Actual	Target	Actual
1. RoR rate (%) (Note 1)	11.5	11.8	9.2	9.7
2. New business and growth of business (\$ million)	270.7	243.9	268.4	330.8
3. Customer satisfaction index (on an 8-point scale)	6.03	6.12	— (Note 2)	— (Note 2)
4. Percentage of SLA renewed during the year (%)	95	96.9	95	99.8
5. Percentage of SLA service performance target compliance (%) (Note 3)	99	99.9	99	99.8
6. Awards for staff suggestion scheme proposal (no.) (Note 4)	24	19	20	32
7. Benchmarking exercises completed (no.)	6	9	6	6
8. Reportable accident per 1,000 EMSD staff (no.)	5.4	3.7	5.3	4.2
9. Statutory non-compliance (no.)	0	0	0	0
10. Electricity consumption at EMSD Headquarters (kilowatt-hour)	11,264,900	10,611,794	11,193,200	10,763,588
11. Staff satisfaction rating (on a 10-point scale)	6.4	6.5	— (Note 2)	— (Note 2)
12. Training day/staff (day)	4.5	4.57	4.5	5.4
13. Stock turnover rate (Note 5)	0.86	1.06	0.87	1.16

Source: EMSTF records

Note 1: In this Table, RoR is the percentage of net profit (interest income included) over revenue in 2011-12 and 2012-13. If interest income is excluded, the RoR for 2012-13 will be reduced from 9.7% to 6.9% (see Table 1 in para. 1.16). According to the EMSTF, to align with the calculation for the rate of return on ANFA, from 2013-14, the calculation for the RoR rate would be revised to the percentage of profit from operations (interest income not included) after notional tax on such profit over the value of turnover.

Note 2: Customer opinion survey and staff satisfaction survey are conducted biennially.

Note 3: This represents the rate of compliance of actual performance against targets specified in SLAs. The targets include system availability, average response time to fault calls and time to repair.

Note 4: Staff suggestion scheme is an incentive award scheme to encourage staff to make improvement suggestions on civil service efficiency.

Note 5: Stock turnover rate is calculated by dividing the annual cost of materials by the average stock level.

EMSD performance pledge

5.3 As of February 2014, the EMSD published the following performance pledges related to the EMSTF on its website:

Type of Service	Target Response Time	Actual compliance level in 2011
Time taken to attend to reported major malfunctions of:		
(a) Traffic signals	2.5 hours	100%
(b) Footbridge lighting	2 hours	100%
(c) Subway lighting	2 hours	100%
Time taken to attend to other reported defects of:		
(d) Traffic signals	1 working day	99.9%
(e) Footbridge lighting	1 working day	100%
(f) Subway lighting	1 working day	100%

Performance reporting

Customer surveys

5.4 Since 1997, the EMSTF has taken the following measures to gauge customers' views on the quality of services provided:

- (a) *Customer opinion surveys* were conducted biennially (Note 17) by consultants. Two indices, namely the customer satisfaction index and the service competitiveness index, were derived from the results of the customer opinion surveys to gauge the customer satisfaction level and competitiveness of service provided by the EMSTF. The customer satisfaction index increased from 4.84 in 1996-97 to 6.12 in 2011-12, and the service competitiveness index increased from 5.07 in 2001-02 (Note 18) to 5.87 in 2011-12 (both indices were measured on an 8-point scale). Furthermore, in the customer opinion surveys, the EMSTF also evaluated customers' preference for EMSTF services as compared with other service providers and the related index dropped from 77% in 2005-06 to 57% in 2011-12;
- (b) *Telephone surveys* were conducted by the EMSTF. About 210 telephone contacts were made a month. During a telephone contact, the EMSTF would ask a customer whether he was satisfied with the services provided by the EMSTF. If the customer was satisfied with the services, no further questions would be asked. If the customer was dissatisfied with the services, the EMSTF would take necessary follow-up action. In 2013, the EMSTF made 2,569 telephone contacts and recorded 11 cases where the customers were dissatisfied with EMSTF services; and
- (c) *Customer feedback cards* were provided to customers of vehicle services upon completion of job orders to collect their views on the service provided. Customers' return of the feedback cards was voluntary. The Business Development Division would summarise customers' views provided in the feedback cards in monthly reports for submission to the senior management.

Note 17: *Customer opinion surveys were conducted annually before 2000 and biennially afterwards.*

Note 18: *No service competitiveness index was compiled before 2001-02.*

Areas for improvement

Irregularities in compiling SLA compliance rates

5.5 SLAs for E&M services provided by the EMSTF include a number of performance indicators, including system availability, average response time to fault calls and time to repair. The target and actual performance of the SLAs are input into the EMSTF computer system for compiling the KPI.

5.6 As shown in Item 5 of Table 12 in paragraph 5.2, the EMSTF achieved 99.9% and 99.8% in 2011-12 and 2012-13 respectively on compliance with performance targets set for SLAs. However, Audit examination revealed the following irregularities in compiling the compliance rates:

- (a) of the 24 SLAs (which had performance pledges with 915 performance indicators) relating to the six major EMSTF clients (namely the HA, the LCSD, the FEHD, the ArchSD, the HKPF and the GPA) which were in force as of March 2013, all 58 performance indicators of 4 SLAs had not been input into the EMSTF computer system for compiling the KPI compliance rate; and
- (b) of the six bulk SLAs (each costing over \$100 million in 2012-13) selected for examination which contained 672 performance indicators, Audit found that the computer system had recorded data for 958 indicators in March 2013. The difference of 286 (958 less 672) indicators was attributable to 378 duplicated/extra records and 92 omitted entries.

5.7 In March 2014, the EMSTF informed Audit that:

- (a) there were currently 217 SLAs in force with more than 3,000 performance indicators; and
- (b) the duplication of records in paragraph 5.6(b) was mainly attributed to the input of data for performance indicators on a regional basis instead of a territory-wide basis. The irregularities reported in paragraph 5.6 had been rectified.

Performance reporting

5.8 According to the EMSTF, the KPI for SLA performance target compliance is a measure of its quality of services delivered to customers. In Audit's view, the EMSTF needs to take measures to improve the data accuracy for compiling the compliance rates of SLA performance targets.

Performance pledges for majority of services not formulated and published

5.9 According to CSB Circular No. 7/2009 "Performance Pledges in the Civil Service":

- (a) performance pledges inform the public of the standards of service that they can expect from the Government, and the course of action open to them on substandard service;
- (b) all B/Ds that provide direct services to the public have promulgated performance pledges. Many B/Ds which provide services to internal customers have also formulated performance pledges; and
- (c) performance pledges, their updates and achievement should be publicised and disseminated to customers and the public at large.

5.10 Audit notes that the 13 EMSTF KPIs (see Table 12 in para. 5.2) have not been published for information of the public or submitted to LegCo. Furthermore, before the establishment of the EMSTF in August 1996, the EMSD had published in its Controlling Officer's Report its performance pledges, targets and achievements in respect of the provision of E&M services (Note 19). Audit also notes that the other four trading funds (namely the Companies Registry, the Land Registry, the Post Office and the Office of the Communications Authority Trading Funds) have published their performance pledges, targets and achievements in their annual reports and websites. However, apart from the time taken to attend to reported malfunction of traffic signals and lighting of footbridges and subways (see

Note 19: *Examples include time of response to job requisition, time of conducting tender assessments, time to rectify plant and equipment faults and time of completing electrical works orders.*

para. 5.3), the EMSTF has not published performance pledges, targets and achievements on majority of its services in annual reports or website for information of the public.

5.11 In March 2014, the EMSTF informed Audit that:

- (a) unlike the other four trading funds, the EMSTF provided its services to client B/Ds and not directly to the public. The performance pledges agreed in SLAs were reported regularly to client B/Ds. For those public-related performance pledges, they had been published on the EMSD's website. The EMSTF had also published the actual performance of two KPIs (RoR rate and customer satisfaction index) in EMSTF annual reports (Note 20); and
- (b) the EMSD had published the electricity consumption, the number of reportable accident per 1,000 staff, the staff satisfaction rating and training days per staff of the whole Department in EMSD Social and Environmental Reports on EMSD website.

5.12 In Audit's view, in order to enhance transparency and public accountability of EMSTF activities, in addition to the performance pledges stated in paragraph 5.10, the EMSTF needs to formulate and publish appropriate performance pledges for the majority of its services. In this connection, Audit considers that the RoR rate, new business and growth of business, customer satisfaction index (see Items 1 to 3 of Table 12 in para. 5.2), service competitiveness index and the index of customers' preference for the EMSTF services (see para. 5.4(a)) may be considered for inclusion as EMSTF performance pledges. In setting performance pledges, the EMSTF also needs to make reference to EMSD performance pledges stated in the EMSD Controlling Officer's Report before 1996 (see para. 5.10).

Note 20: *EMSTF annual reports only published the actual performance but not the targets of the two KPIs.*

Areas for improvement in conducting staff and customer surveys

5.13 *Staff satisfaction survey.* Apart from customer opinion surveys, the EMSD also conducts a staff satisfaction survey biennially. The main purpose of the survey is to gauge the opinion of EMSD staff on various aspects including their working environment, perceptions on elements that have impact on service culture and any other major concerns of their staff. Audit notes that, in the 2011 satisfaction survey, the overall response rate of EMSD staff was 30%, and the response rate of EMSTF staff was 27%. In Audit's view, the EMSTF needs to take measures to encourage its staff to actively participate in staff satisfaction surveys.

5.14 *Customer feedback card.* Upon completion of a job order for vehicle services, EMSTF staff would request the customer to complete a customer feedback card on a voluntary basis to gather the customer's views on the service provided. However, Audit examination of the monthly reports (see para. 5.4(c)) of 2013 revealed that no customer feedback cards had been received in the year. In Audit's view, the EMSTF needs to conduct a review to ascertain the reasons for the nil return on all the customer feedback cards sent out and take measures to improve the return rate.

5.15 In March 2014, the EMSTF informed Audit that:

- (a) it had conducted a preliminary review on the use of customer feedback cards and decided not to use this passive means to collect customer feedback for all services in future; and
- (b) it would conduct a review of other better options to collect customer feedback. There were better ways to collect customer feedback, taking into account technology advancement, environmental consideration and customer convenience. Customers could also provide their views and comments to the EMSTF through a 24-hour hotline and facsimile.

Audit recommendations

5.16 **Audit has *recommended* that the Director of Electrical and Mechanical Services should:**

- (a) **take measures to improve the data accuracy for compiling the compliance rates of SLA performance targets;**
- (b) **formulate and publish appropriate performance pledges for EMSTF services; and**
- (c) **take measures to encourage EMSTF staff to actively participate in staff satisfaction surveys.**

Response from the Administration

5.17 The Director of Electrical and Mechanical Services agrees with the audit recommendations. He has also said that the EMSTF is in the process of reviewing the KPIs and performance pledges, and will take the opportunity to formulate and publish appropriate performance pledges for majority of its services.

PART 6: WAY FORWARD

6.1 This PART outlines the major audit observations and examines the way forward.

Electrical and Mechanical Services Trading Fund

6.2 With the objectives of providing quality services to customers, continuously reviewing the markets in which the EMSTF operates, identifying new business opportunities and providing a suitable environment for EMSD staff to continuously improve processes and hence customer satisfaction, the EMSTF was established in August 1996. According to the Framework Agreement entered into in September 1996, the services of the EMSTF will be provided to B/Ds and other government subvented or financially assisted agencies, and the opportunity will be taken to bid for and win business in other markets as they arise.

6.3 As promulgated by the FSTB, since August 2002, B/Ds and autonomous bodies have been free to retain the services of the EMSTF or to choose alternative service providers to meet part or all of their E&M service needs. In 2012-13, EMSTF operating revenue was \$4,643 million while the operating cost was \$4,262 million, resulting in an operating profit of \$381 million. The rate of return on ANFA was 38.1% and the RoR rate was 6.9% in the year.

Major audit observations

6.4 In PART 2, Audit has found that the actual rates of return on ANFA over the past 17 years were significantly higher than the target rates. Furthermore, in response to the Financial Secretary's advice in December 1996 that the EMSTF should find out what the private sector was charging for similar services provided by it, and that it should be able to match the commercial rates by 1999, the EMSTF conducted a comprehensive benchmarking study in 1998 on the commercial rates for similar services provided by the EMSTF. According to the EMSTF, since 1998, it has reviewed the market prices through participation in competitive tendering exercises and outsourcing its work to contractors in the private sector. However, there is no evidence that the EMSTF has taken action to systematically compare and align EMSTF prices with the market prices. As of March 2013, the EMSTF had

accumulated retained earnings of \$2,308 million. However, the EMSTF has not determined the amount of reserve required for its operation so that it could return surplus fund to the Government.

6.5 While the Framework Agreement requires that the EMSTF would bid for and win business in other markets as opportunities arise, the EMSTF only derived \$4 million (0.1% of its revenue) from private organisations. Furthermore, as promulgated by the FSTB, B/Ds and autonomous bodies would be free to retain the services of the EMSTF or to choose alternative providers to meet part or all of their E&M services from August 2002. However, Audit survey revealed that, as of December 2013, all E&M service agreements of the FEHD, the ArchSD, the HKPF and the GPA had been awarded to the EMSTF through direct negotiation without going through competitive tendering.

6.6 In PART 3, Audit has reported that, according to CSB Circular No. 2/2001, NCSC staff are not entitled to overtime allowance. However, Audit examination revealed that the EMSTF had given approval for its NCSC staff to receive overtime allowance since May 2001. Audit has also found that, although CSR requires that overtime work performed should normally be compensated by time off in lieu, 96% and 90% of overtime work respectively performed by civil servants and NCSC staff of the EMSTF was recompensed by overtime allowance.

6.7 While the CSB has promulgated that time off is granted preferably before a staff takes his earned leave, Audit has found that 25 EMSTF officers had been approved to take vacation leave during the period while they had accumulated uncompensated overtime hours.

6.8 In PART 4, Audit notes that LegCo was informed in June 2001 that, upon relocation of the EMSD Headquarters to Kai Tak Site, CWB Site previously occupied by the EMSD would be released for development in 2004-05. However, as it transpired, CWB Site would only be released to the Lands D for disposal in May 2014, ten years later than the original target date.

Way forward

6.9 In PART 5, Audit has found that the EMSTF has not formulated and published performance pledges for majority of its services.

Achievement of objective on seeking business outside the government sector

6.10 The main objectives of setting up the EMSTF include, among others, achieving greater efficiency by exposing the service to competition or to proxy competitive pressures through price comparisons and cost consciousness on the part of the users, and continuously reviewing the markets in which the EMSTF operates and identifying new business opportunities. However, Audit notes that the EMSTF only derived \$4 million, or 0.1% of its revenue, from private organisations. According to the EMSTF, it did not seek business in the private markets because there was no legal support to go beyond the scope of government service. In this connection, Audit notes that the EMSTF may widen its scope of services after obtaining a separate legal status.

6.11 On the other hand, although B/Ds have been allowed to choose service providers other than the EMSTF to meet part or all of their E&M services from August 2002, Audit survey revealed that most B/Ds acquired E&M services from the EMSTF through direct negotiation without going through competitive tendering. The reasons of the pertinent B/Ds for not conducting competitive tendering for procuring E&M services include the lack of expertise in preparing tender specifications, supervising and monitoring the work of private contractors, and additional costs and efforts involved in conducting tender exercises.

6.12 Audit notes that, 17 years after the establishment of the EMSTF in 1996, the EMSTF's clients are primarily B/Ds and some quasi-government bodies. On the other hand, B/Ds predominantly rely on the EMSTF to provide E&M services (see para. 2.42). In Audit's view, this situation may not have helped the EMSTF to fully achieve the objective of exposing its services to market competition (see para. 6.10). Therefore, the DEVB, in collaboration with the FSTB, needs to conduct a review to evaluate the effectiveness of the EMSTF in achieving the pertinent objectives and determine the way forward for the Fund.

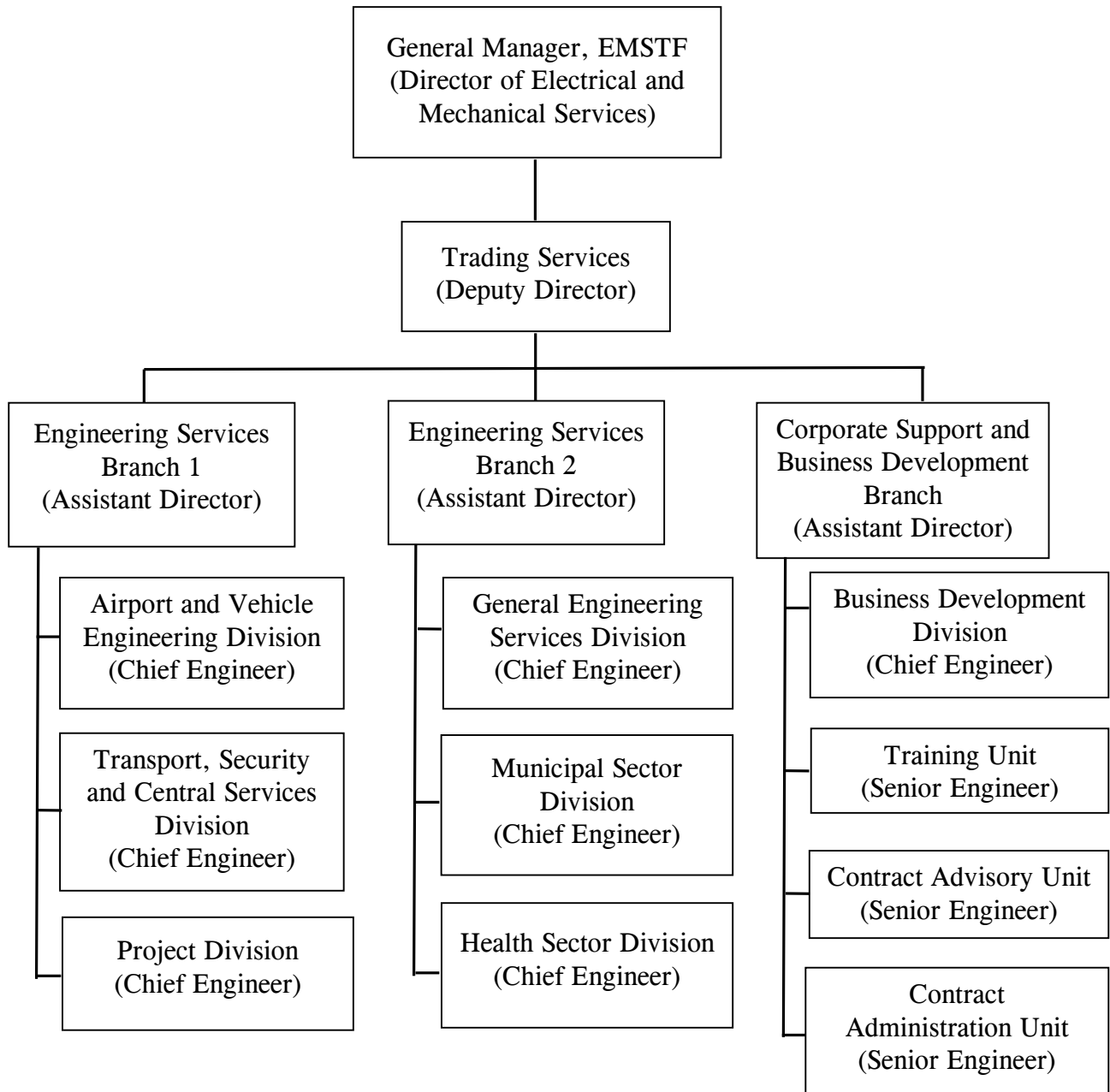
Audit recommendation

6.13 **Audit has *recommended* that the Secretary for Development should, in collaboration with the Secretary for Financial Services and the Treasury, conduct a review to evaluate the effectiveness of the EMSTF in achieving its objective of exposing its services to market competition and determine the way forward for the Fund.**

Response from the Administration

6.14 The Secretary for Development and the Secretary for Financial Services and the Treasury agree with the audit recommendation. The Secretary for Development has said that the DEVB, in collaboration with the FSTB, will continue to monitor and evaluate the effectiveness of the EMSTF through reviewing the latter's Corporate and Business Plans and annual reports, and attending quarterly EMSTF Executive Board meetings and biannual financial monitoring meetings.

**Organisation Chart of the EMSTF
(31 December 2013)**



Source: EMSTF records

**Achievements of the EMSTF
(August 1996 to February 2014)**

Area	Achievement
(A) Provide quality services to customers in a cost-effective, safe and reliable manner	
Quality improvement	<p>It has obtained:</p> <ul style="list-style-type: none"> — the ISO 9001 Quality Management Corporate Certification (in 1999); — 2006 Hong Kong Management Association Quality Award (Gold Award); — ISO 14001 environmental management system; — Occupational Health and Safety Assessment Series 18001 (Note 1) occupational health and safety management system; — ISO 27001 information security management system; and — Publicly Available Specification (Note 2) 55 asset management system.
Productivity improvement	<ul style="list-style-type: none"> • From 1996 to 2002, it had raised its productivity by 22.5%. • Between 2008 and 2012, it had achieved productivity saving equivalent to 5% of its annual turnover.
(B) Continuously review the markets in which the EMSTF operated	
Competitive tendering	<p>From August 1996 to February 2014, it had submitted 337 tenders to 30 different clients with a total tender sum of \$4,000 million. These tenders covered project and consultancy service, vehicle service, and operation and maintenance of various systems in E&M and building services, and specialised airport, medical and electronic systems.</p>
Outsourcing	<p>As of February 2014, it managed some 500 contracts of various E&M services. In 2012-13, the amount of outsourcing work managed by the EMSTF was \$1,551 million, representing 36% of its total operating cost.</p>

Appendix B
(Cont'd)
(para. 2.6 refers)

Area	Achievement
(C) Identify new business opportunities	
Exploring new business opportunities	<ul style="list-style-type: none"> • The annual business volume had risen from \$2,654 million in 1997-98 to \$4,643 million in 2012-13. • A data centre has been set up since 2003-04. • It has engaged in information and communication technology (e.g. Wi-Fi for the community, information technology support for the World Trade Organisation Ministerial Conference in 2005) since 2005-06. • It has engaged in railway E&M engineering consultancy service and engineering service for food waste recycling since 2008-09. • It has engaged in water saving consultancy service since 2009-10.
(D) Provide a suitable environment for the EMSD staff to continuously improve processes and hence customer satisfaction	
Reorganisation and regionalisation	<ul style="list-style-type: none"> • Upon its establishment, a strategic reorganisation and regionalisation exercise was initiated, which reorganised the functional divisions into strategic business units focusing on specific customers. • After the exercise, more than 1,000 staff were deployed to regional depots at geographic locations at or closer to clients' premises, which enabled the staff to respond to service requests promptly and improved efficiency. About \$30 million was saved annually through reduced travelling time to work sites, reduced accommodation costs and improved productivity. • In 2010, the Business Development Division was established for responding to the rapid change in the business environment and facilitating development of new business.

Appendix B
(Cont'd)
(para. 2.6 refers)

Area	Achievement
Customer opinion survey	<ul style="list-style-type: none"> • It engaged external consultants to conduct customer opinion surveys biennially to measure customer satisfaction levels and identify potential areas for improvement. • According to the survey results, the customer satisfaction index increased from 4.84 in 1996-97 to 6.12 in 2011-12 on an 8-point scale.

Source: EMSTF records

Note 1: This is an international occupational health and safety management system specification, which specifies requirements for an organisation to control its occupational health and safety risks and improves its performance in the area.

Note 2: This is a document published by the British Standards Institution for introducing standardisation in different systems.

**Audit Reports covering EMSTF services
(2001 to 2012)**

Audit Report No.	Subject	Response from B/D
58 (March 2012)	Procurement of goods and services for correctional institutions	The Correctional Services Department said that the existing SLA would expire on 31 March 2018. It would review the cost-effectiveness of the EMSTF's services before entering into a new SLA with the EMSTF.
55 (October 2010)	Management of performing arts venues	The LCSD said that: <ul style="list-style-type: none"> • if and when E&M services for suitable venues were identified, it would remove them from the bulk SLA with EMSTF for separate tendering; and • sufficient lead time would be allowed to review the existing arrangement and put in place new arrangements before entering into a new SLA starting from 1 April 2014.
42 (March 2004)	Management and maintenance of fire-fighting and rescue vehicles	The Fire Services Department said that: <ul style="list-style-type: none"> • for the phased approach of outsourcing provision of maintenance services for 448 ambulances and other support vehicles, it issued a tender for the maintenance service of a fleet of 18 ambulances in the Hong Kong region in January 2005; and • evaluation of tender was completed in March 2005 and the tendering exercise was subsequently cancelled as the cost of the lowest conforming bid offered by a private service provider was almost 100% higher than the current fees charged by the EMSTF for the provision of similar service.

Appendix C
(Cont'd)
(para. 2.35 refers)

Audit Report No.	Subject	Response from B/D
38 (March 2002)	Provision of services by the Government Laboratory	The Government Laboratory said that it would review the provision of E&M services in the fourth year of the SLA period.
37 (October 2001)	Management of government properties by the Government Property Agency	The GPA said that it would introduce a pilot scheme to subcontract the servicing of E&M installations in June 2002, and carry out a post-trial evaluation to assess the cost-effectiveness of such subcontract arrangements.

Source: Audit records

**Chronology of key events relating to the release of CWB Site
(February 1996 to February 2014)**

Month	Key event
(a) February 1996	The GPA identified a site at Chai Wan East Industrial Area (Chai Wan East Site) for the relocation of the EMSD Headquarters and depot and was accepted by the EMSD.
(b) March 1996	The GPA requested the PlanD to earmark the site for use by the EMSD.
(c) December 1996	The GPA invited various departments (including the EMSD) to bid for using Chai Wan East Site as a joint government departmental depot.
(d) January 1999	The draft Chai Wan Outline Zoning Plan No. S/H20/7 was gazetted, which included the proposed joint government departmental depot in Chai Wan.
(e) July 1999	The GPA proposed that the EMSD Headquarters should be relocated to Kai Tak Site.
(f) August 1999	The EMSD accepted the GPA's proposal and advised the GPA that a regional workshop on Hong Kong Island should be maintained.
(g) November 1999	The Administration decided not to pursue the proposed joint government departmental depot at Chai Wan East Site.
(h) February 2000	The EMSD assessed that the Hong Kong Depot would require a floor area of 6,870 m ² .
(i) June 2000	The EMSD proposed to reprovision the Hong Kong Depot to a site at Whitfield Road, Causeway Bay, which was then used by the FEHD as a vehicle depot. The EMSD proposed to share the site with the FEHD.

Appendix D
(Cont'd)
(para. 4.9 refers)

Month	Key event
(j) March 2001	<ul style="list-style-type: none"> • The EMSD revised the required area of the Hong Kong Depot to 5,570 m². • The EMSD noted that an area of only 1,210 m² would be available at the Whitfield Road site and advised that the shortfall could be met by accommodation in industrial buildings. In this connection, the EMSD proposed seven possible sites for the reprovisioning. • The GPA considered that the seven possible sites proposed by the EMSD were not suitable for the reprovisioning.
(k) June 2001	<ul style="list-style-type: none"> • The LegCo Finance Committee approved funding of \$878.9 million for reprovisioning the EMSD facilities at CWB Site, SWT Site and Kowloon Bay Site to the Kai Tak Site. • The FEHD agreed to release a floor area of 1,800 m² at Whitfield Road site to accommodate the EMSD Hong Kong Depot. In this connection, the GPA proposed to meet the shortfall of about 3,770 m² by making use of an ex-cooked food market at Ap Lei Chau (about 330 m²) and the remainder of 3,440 m² by commercial leasing/government accommodation.
(l) September 2002	The EMSD informed the GPA that it preferred to have a single large workshop instead of various scattered workshops on Hong Kong Island.
(m) December 2002	The FEHD declined to share its depot at Whitfield Road with the EMSD on operational grounds.
(n) March 2003	<ul style="list-style-type: none"> • The EMSD requested the Lands D to identify temporary sites for the reprovisioning of the Hong Kong Depot. • The EMSD identified two sites but it subsequently considered them not suitable.
(o) November 2003 to January 2004	The EMSD requested the GPA to negotiate with the FEHD on reprovisioning the Hong Kong Depot at the Whitfield Road site (see Item (m)).

Appendix D
(Cont'd)
(para. 4.9 refers)

Month	Key event
(p) February 2004	<ul style="list-style-type: none"> • After further negotiation with the FEHD, the GPA informed the EMSD that the FEHD did not agree to release the space at its depot at Whitfield Road, and in view of the long-term planning intention to free up the site for more compatible development, the reprovisioning proposal of the Hong Kong Depot to Whitfield Road was no longer feasible. • The GPA searched through its property list but no suitable site could be identified. • The GPA requested the EMSD to consider if the EMSD Siu Ho Wan Maintenance Depot was suitable for accommodating the Hong Kong Depot. • The EMSD and the GPA noted that there was no urgency to vacate CWB Site for land sale before 2006.
(q) March 2004	<ul style="list-style-type: none"> • The EMSD replied that the Siu Ho Wan Depot was not suitable on operational grounds. • The EMSD suggested to the GPA to further pursue the reprovisioning proposal of the Hong Kong Depot to Whitfield Road. • As an alternative, the EMSD also requested the GPA to conduct another site search for reprovisioning the Hong Kong Depot with suggestions of possible sites. • The GPA requested the PlanD to undertake a site search for reprovisioning the EMSD's vehicle and non-vehicle workshops.
(r) April 2004	<ul style="list-style-type: none"> • The GPA advised that the EMSD's reprovisioning proposal of the Hong Kong Depot might not be cost-effective because vacation of CWB Site would not be required before 2006. • The EMSD considered that the GPA's proposal to postpone the reprovisioning schedule of the Hong Kong Depot until 2006 undesirable and requested the GPA to urgently pursue the reprovisioning.

Appendix D
(Cont'd)
(para. 4.9 refers)

Month	Key event
(s) July 2004	The PlanD proposed to accommodate the Hong Kong Depot at Chai Wan East Site. The EMSD had no objection to the proposal.
(t) August 2004	<ul style="list-style-type: none"> • The GPA requested the EMSD to provide more information about their operational requirement for recommending the most cost effective reprovisioning option. • The EMSD reminded the GPA that the EMSD should vacate CWB Site and hand over the Site to the GPA or the Lands D by mid-2005. The EMSD requested the GPA to explore its proposal of March 2004 (see Item (q)) as an alternative solution. • The EMSD revised the area required for the vehicle workshop to 1,904 m².
(u) September 2004	The EMSD requested the GPA to urgently follow up its proposed alternatives (see Items (q) and (t)) and suggested three other possible sites for the GPA's consideration.
(v) October 2004	The EMSD revised the area required for the non-vehicle workshop to 570 m ² .
(w) March 2005	The GPA informed the PlanD that the EMSD decided to continue staying at CWB Site to operate the vehicle and non-vehicle workshops until the Site had to be disposed of. In this connection, the GPA would not further proceed with site searches for reprovisioning the EMSD workshops pending confirmation of site disposal schedule. The GPA further clarified that the project proponent or major user department is the lead department to coordinate the project implementation.
(x) May 2005	The EMSD informed the GPA that CWB Site was ready for vacation. However, the EMSD would continue to use part of CWB Site (3,790 m ²) for the operation of the Hong Kong Depot until required by the Lands D for land sale.
(y) August 2005	<ul style="list-style-type: none"> • The DEVB indicated policy support to reprovision the non-vehicle workshop in private leased premises. • The GPA requested the Lands D and the PlanD to conduct a site search for accommodating the Hong Kong Depot.

Appendix D
(Cont'd)
(para. 4.9 refers)

Month	Key event
(z) October 2005	<ul style="list-style-type: none"> • The EMSD informed the GPA and the Lands D that CWB Site, SWT Site and Kowloon Bay Site were ready for taking over by them and requested them to consider ways to dispose of the sites. • The Lands D said that it would take over CWB Site after the site had been free from any occupation, structures or building and cleared from contamination. • The GPA requested the EMSD to consider other options such as contracting out the depot service.
(aa) November 2005	The PlanD said that Chai Wan East Site was found suitable for accommodating the Hong Kong Depot (see Item (s)).
(ab) March 2006	<ul style="list-style-type: none"> • The DEVB and the GPA expressed reservations on the PlanD's proposal in Item (aa). • The EMSD considered that the PlanD's proposal not suitable for the EMSD's vehicle and non-vehicle workshops and requested the GPA, the Lands D and the PlanD to conduct another round of site search to identify other suitable government or private premises.
(ac) June 2006	<ul style="list-style-type: none"> • The EMSD informed the GPA that there was no need to co-locate the vehicle and non-vehicle workshops together. It had no preference on whether the non-vehicle workshop was located on government-owned premises or private leased premises. The required floor area for the non-vehicle workshop was revised to 962 m² and that of the vehicle workshop was maintained at 1,904 m². It also requested the GPA to conduct another round of site search. • In view of the uncertainty of the availability of a permanent site for reprovisioning the Hong Kong Depot, the EMSD requested the Lands D to identify suitable temporary sites on Hong Kong Island for reprovisioning the Hong Kong Depot. The EMSD also proposed one possible site to the Lands D for consideration.
(ad) July 2006	The GPA informed the EMSD not to rule out other options, including requiring the contractors to build their own facilities or to provide their depot facilities.

Appendix D
(Cont'd)
(para. 4.9 refers)

Month	Key event
(ae) October 2006	The Lands D said that the site proposed by the EMSD in Item (ac) was a private lot and hence could not be allocated to the EMSD.
(af) November 2006	The EMSD requested the Lands D's assistance in conducting the site search.
(ag) May 2007	The Lands D identified a temporary site at Sheung On Street, Chai Wan (Temporary Chai Wan Site), with a site area of 2,100 m ² , for setting up a temporary workshop.
(ah) July 2009	The Lands D approved the allocation of the Temporary Chai Wan Site to the EMSD for a period of five years from the date of possession for setting up temporary vehicle and non-vehicle workshops.
(ai) July 2010	<ul style="list-style-type: none"> • The EMSD requested the PlanD to conduct a site search to permanently relocate the vehicle workshop. • The PlanD proposed and the EMSD agreed to relocate the Hong Kong Depot to a site (with a site area of about 7,006 m²) bound by Sheung Tat Street, Sheung Mau Street and Sheung On Street in Chai Wan (Permanent Chai Wan Site) which would be shared with other joint users (namely the HKPF, the FEHD and the Government Laboratory). The permanent Hong Kong Depot is planned to be commissioned in 2018.
(aj) June 2011	The EMSD requested the GPA to identify suitable premises on Hong Kong Island for reprovisioning the non-vehicle workshop.
(ak) July 2011	The Accommodation Strategy Group (Note 1) approved funding of \$18.34 million for constructing a temporary vehicle workshop at the Temporary Chai Wan Site.

Appendix D
(Cont'd)
(para. 4.9 refers)

Month	Key event
(al) March 2012	The GPA identified an accommodation with a floor area of 860 m ² in an industrial building in Chai Wan for relocating the non-vehicle workshop.
(am) August 2012	The EMSD obtained an Environmental Permit (Note 2) from the Director of Environmental Protection for commencement of construction works at the Temporary Chai Wan Site.
(an) October 2012	The EMSD agreed in principle to the proposal of relocating the non-vehicle workshop to the industrial building.
(ao) April 2013	The GPA, on behalf of the EMSD, signed an agreement (commencing on 2 May 2013) for renting the private premises for use by the non-vehicle workshop.
(ap) October 2013	The non-vehicle workshop moved into the leased premises.
(aq) February 2014	In the 2014-15 Budget published in February 2014, the Administration stated that it would complete the land use and traffic impact study of the CWB Site as soon as possible for the provision of more commercial floor area in Causeway Bay.

Source: EMSD records

Note 1: The Group is chaired by the Deputy Secretary for Financial Services and the Treasury (Treasury)³ and is responsible for, among others, deciding the distribution of funds under Head 703 Subhead 3101GX for minor building works not exceeding \$30 million.

Note 2: The works is a designated project under the Environmental Impact Assessment Ordinance (Cap. 499), which requires the project proponent to obtain an Environmental Permit granted by the Director of Environmental Protection before commencement of construction works.

Acronyms and abbreviations

ANFA	Average Net Fixed Assets
ArchSD	Architectural Services Department
Audit	Audit Commission
B/Ds	Government bureaux and departments
CSB	Civil Service Bureau
CSRs	Civil Service Regulations
CWB Site	Causeway Bay Site
DEVB	Development Bureau
EMSD	Electrical and Mechanical Services Department
EMSTF	Electrical and Mechanical Services Trading Fund
EPD	Environmental Protection Department
E&M	Electrical and mechanical
FEHD	Food and Environmental Hygiene Department
FSTB	Financial Services and the Treasury Bureau
GPA	Government Property Agency
HA	Hospital Authority
HKPF	Hong Kong Police Force
HOUSCOM	Steering Committee on Land Supply for Housing
ISO	International Organization for Standardization
KPI	Key performance indicator
Lands D	Lands Department
LCSD	Leisure and Cultural Services Department
LegCo	Legislative Council
m ²	Square metres
NCSC	Non-civil-service contract
PlanD	Planning Department
RoR	Return on revenue
SLA	Service level agreement
SWT Site	Sung Wong Toi Site