

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.