

Speech by Mr Lim Hng Kiang, Minister for Trade and Industry, during the Committee of Supply Debate (Ministry of Trade and Industry) on Monday, 5 March 2007, in reply to cuts (p) and (q) under Head V

1. Sentosa Cove is a unique development comprising not just condominium parcels, but also individual bungalow lots, hotels, shops and even a marina.

2. SDC had originally adopted the tender mode of sale for Sentosa Cove for the first and second sale of sites. However, the feedback from potential buyers was that this mode was rigid and too onerous. It was not flexible enough to cater to private developers as well as to individual final home owners. From previous experiences, selling land in such a complex mixed development using the normal government methods will not achieve the best value. SDC, therefore, set up a private company, SCPL, so as to position the sale of sites at Sentosa Cove as a commercial undertaking. It also enlisted the help of private sector people in the SCPL Board to contribute their market expertise and business acumen.

3. To better meet market needs, SCPL decided to adopt alternative modes of sales and practices which are common in the private sector. These methods have been effective, and Sentosa Cove has done very well.

4. However, Auditor-General found that these practices do not comply with the Government's Instruction Manual (IM), which SDC as a statutory board has to follow.

5. Following Auditor-General's observation, SDC has reconciled its sale practices with the requirements of IM, and obtained MOF's exemption from certain provisions. This allows SDC to meet market needs, while fully observing the principles of fair competition, transparency and maximising returns to Government.

6. Let me now turn to the three instances which Mr Low Thia Kiang had mentioned. First in Nov 2004, it was the sole tenderer and the tender was awarded below valuation. The SCPL Board had very long and deliberate discussions on whether to award this. As you know, the market situation at the time was still very fragile. We had just recovered from the 2003 SARS episode. The Board decided that if they did not award this tender, it would send a signal to the market and cause the market to be more fragile. They decided that in the interest of pursuing Sentosa Cove development and to maintain the momentum, they decided to award to this tender.

7. Another reason why the tender price came below valuation is because this was the first time we awarded based on an en bloc development of the bungalow lots. Previously, we were selling the bungalow lots individually and selling to the highest bidder for each lot. But the target catchment we are looking for in Sentosa Cove – high-end bungalows – many of them do not want to come in and tender individually and some of these sales are to foreigners.

8. So, SCPL thought that an en bloc sale to an intermediary, who is more able to respond flexibly to the final home buyer, would be a better approach. Therefore, it was a question of judgement by the valuer as to how much to discount when you do an en bloc sale, so that explains why there was a difference in the valuation.

9. In the second case, where Mr Low Thia Kiang mentioned there was a limited tender, this was because SCPL decided to go for an approach called expression of interest. This is not something that is in the IM, but in the private sector, the developer will invite prospective tenderers through an expression of interest. In this case, SCPL asked all members of REDAS whether they are interested in tendering for this particular project and as a result, a smaller group of people expressed interest. From then on, SCPL dealt with a smaller group. There is nothing wrong with dealing a smaller group after you have asked the huge REDAS membership to first see whether they have any interest in the project.

10. The third case of a former director tendering. This is not unusual as many times we invite private sector people onto our boards to make use of their expertise and for them to contribute. It is common corporate governance that when they join the board, they will declare their interest and excuse themselves from participation in individual cases. In this case, the former director retired and after his retirement, he participated in the tender.

11 Let me turn to the second case of EDB. In EDB's case, Auditor-General had eight findings. EDB views the Auditor-General's findings very seriously. For the non-systemic findings, EDB has taken swift actions to rectify the lapses highlighted. For areas where the Auditor-General had recommended improvements, EDB has promptly reviewed and implemented the necessary changes. MTI will work closely with EDB to ensure that it continues to strengthen its corporate governance practices and internal control systems.

12. There were two findings on board governance structure. Previously, the EDB Budget and applications for large incentive loans and grants were submitted directly to MTI (HQ) and approved by MTI (HQ) without going through the Board. EDB has since accepted AGO's recommendation and its operating budget is now approved by the Board since FY 06. All key issues and decisions made by the Board's sub-committees are now reported back to the Board.

13. There were three findings in the form of differing interpretation of EDB Act and accounting treatment. On wrongful delegation of the Board's powers, EDB had acted on its legal counsel's advice regarding the interpretation of the EDB Act. AGC has a different interpretation of the Act. EDB and MTI have since adopted AGC's interpretation instead, and EDB has made the necessary changes to comply with the Act.

14. On the under-contribution of its annual surpluses because of the difference in accounting treatment, EDB had relied on the views of 2 external auditors on the accounting treatment adopted for the scholarship fund, which were different from AGO's. EDB has since adopted AGO's recommended accounting treatment, and has made the corrections and contribution to Government.

15. There were two findings on procurement procedures that were highlighted by Mr Low Thia Khiang. One was on an expenditure of \$5.8 million which was approved 15 months after the completion of the transaction. This was because the project was very complex, the costing was available only much later and the approval was therefore obtained late.

16. On the second case of \$9.2 million which was split into smaller contracts, EDB had followed the procurement procedures for each contract's value rather than on a total project cost. EDB has accepted AGO's recommendation to seek approval based on the total project cost.

17. Finally, there was a finding of overpayment of salary totalling some \$400,000 for the period from November 2001 to May 2004. The overpayments were isolated incidents and not systemic. The amount was promptly recovered through instalments and would be fully recovered by 31 March 2007. EDB has also put in place various monitoring processes to prevent such incidents.

18. Thank you.