

ITEM FOR ESTABLISHMENT SUBCOMMITTEE OF FINANCE COMMITTEE

HEAD 147 – GOVERNMENT SECRETARIAT : FINANCE BUREAU Subhead 001 Salaries

Members are invited to recommend to Finance Committee the creation of the following supernumerary post for three years –

1 Administrative Officer Staff Grade B1
(D4) (\$145,150 - \$149,600)

to be held against the following permanent post –

1 Administrative Officer Staff Grade B
(D3) (\$127,900 - \$135,550)

PROBLEM

The current ranking of the Deputy Secretary for the Treasury (2) (D3) post in the Finance Bureau does not reflect adequately the expanded responsibilities of the post having regard to the importance and complexity of work to be undertaken in the coming three years.

PROPOSAL

2. We propose to upgrade the Deputy Secretary for the Treasury (2) post from Administrative Officer Staff Grade B (D3) to Administrative Officer Staff Grade B1 (D4) for a period of three years.

/JUSTIFICATION

JUSTIFICATION

3. The present senior directorate structure of Finance Bureau has remained unchanged since 1995, although there have been significant increases to the responsibilities of the Deputy Secretary(2) post in the last two years. The increases in responsibilities will continue for the coming few years. We consider it justified to upgrade the ranking of this post for a period of three years.

4. A copy of the existing organisation chart of Finance Bureau is at Encl. 1
Enclosure 1. A copy of the responsibilities and duties of the Deputy Secretary(2) Encl. 2
post is at Enclosure 2.

Management of Government's Assets

5. The management of Government's assets is an important aspect of the responsibilities of the Deputy Secretary(2) post. In recent years, the Administration has been making major equity investments and providing loans in support of economic and social developments to improve Hong Kong's competitiveness and living environment. For example, in the last two years alone, the Deputy Secretary(2) led negotiations with the concerned commercial parties which culminated in the Government taking strategic investment decisions in the Hong Kong International Theme Park and the Cyberport. These are in addition to the more conventional negotiations with statutory bodies such as the Airport Authority, the Mass Transit Railway (MTR) Corporation and the Kowloon-Canton Railway Corporation in respect of the Government's equity investments in these bodies. In the months ahead, the Deputy Secretary(2) will take charge of negotiations with the newly established Urban Renewal Authority on the kind and quantum of financial support to be extended to this entity to enable it to achieve its mission in a financially optimal manner.

6. As an illustration of the growth of responsibilities of the Deputy Secretary(2) post, we set out below the significant increase in the value of Government's investments and loans since 1995 -

	as at 31.3.1995 \$ billion	as at 31.3.2000 \$ billion
Capital Investment Fund	221.7	417.2
Loan Fund	10.9	24.4

Encls.3-5 Details of these investments and loans are given in the Accounts of the Government. Extracts from the 1999-2000 accounts giving some of these details as at 31 March 2000 are at Enclosures 3 to 5.

7. The Deputy Secretary(2) is also responsible for monitoring, on behalf of the Government as a shareholder or lender, the performance of these huge Government investments to ensure an appropriate rate of return to the community. In the performance of this work, he has to deal with the top leadership in those entities with Government investments, tackle complex financial issues, and drive a hard bargain for the furtherance of the community's interests at large.

8. Separately, the Financial Secretary indicated in the 2001 Budget Speech that we will consider corporatizing or privatising individual assets to enhance efficiency and service quality where appropriate and approved by the legislature, and bring to the market additional high-value investment opportunities. Specifically Finance Bureau, working together with Transport Bureau, will complete examination of the case for privatising government tunnels within 2001. Finance Bureau has just commenced preparation for the offer of a second tranche of MTR shares for sale in the coming year subject to favourable market conditions. Finance Bureau will continue to examine proposals for privatisation as and when the time and conditions are right. The Deputy Secretary(2) will continue to take charge of all this work, reporting to and seeking the advice of the Secretary for the Treasury.

Management of Revenue Policy Issues

9. Another important aspect of the Deputy Secretary(2)'s work is formulation of revenue policies and resolution of revenue policy-related issues. This aspect of work has become more critical and has grown in complexity in recent years. This has arisen partly because of the emerging trend of operating deficits in the last three fiscal years, which is forecast to continue in the medium term. It has also come about because some of our long-standing sources of revenue are under threat. One example is revenue from betting duty which is under threat largely as a result of technological changes, particularly betting on the internet. Another is the likely impact of e-commerce on our profits tax which is territorial-based. Many governments and regional governmental organizations are grappling with these issues. More important than ever before, the Deputy Secretary(2) has to analyze the local situation, keep abreast of global discussions and emerging consensus, assess their practicability for Hong Kong, and recommend solutions that suit our needs and are in step with the world trend as far as possible.

10. On another front, we are also stepping up our co-operation with other governments on taxation policy issues, specifically with a view to negotiating a network of double taxation agreements and keeping in the forefront of international best tax practices in order to maintain Hong Kong's competitiveness. The Deputy Secretary(2) has just led the first round of negotiations on a comprehensive double taxation agreement with Denmark. While much progress has been achieved, the

/negotiations

negotiations have also revealed a few issues with fundamental and potentially far-reaching consequences, including the extent to which our taxation authorities should exchange taxpayers' information with other taxation authorities.

11. The above developments have emerged over the last two years or so. The additional work and responsibilities entailed have been managed by the Deputy Secretary(2) so far. As the additional responsibilities to be discharged by this post will persist at least in the coming few years, we do not consider it appropriate to continue with a situation where the ranking of the post is not commensurate with the level of responsibilities to be undertaken. Accordingly, we propose to upgrade the rank of the Deputy Secretary(2) post from D3 to D4 for a period of three years, pending a review nearer the end of this period.

12. Before putting forward the above recommendation, we have considered the option of rescheduling the duties of the three Deputy Secretary posts in Finance Bureau. We have come to the conclusion that this option is neither practicable nor desirable.

FINANCIAL IMPLICATIONS

13. The additional notional annual salary cost at mid-point of this proposal is -

		\$	No. of Post
	Supernumerary AOSGB1 post	1,795,200	1
Less	Permanent AOSGB post	1,580,400	1
	Additional cost	214,800	0

14. The additional full annual average staff cost of the proposal, including salaries and staff on-costs, is \$434,000. In addition, this proposal will directly result in the creation of one Senior Personal Secretary post offset by the deletion of one Personal Secretary I post. The additional notional mid-point salary cost is \$94,400 and the additional full annual average staff cost is \$190,000. The creation and deletion of the non-directorate post will be dealt with by the Secretary for the Treasury under delegated authority.

/15.

15. Subject to approval of the proposal, we will provide the supplementary provision required under delegated authority, offset by deletion of an equivalent amount under Head 106 Miscellaneous Services Subhead 251 Additional Commitments.

BACKGROUND INFORMATION

16. The senior directorate structure of Finance Bureau was last reviewed in April 1995. Members approved via EC(95-96)1 the creation of an additional Deputy Secretary at D3 level to share the work of the other two overburdened Deputy Secretaries one of whom was ranked at D4 level.

CONSULTATION WITH LEGISLATIVE COUNCIL PANEL

17. We consulted the Legislative Council Panel on Financial Affairs on 7 May 2001. Members noted the proposal.

CIVIL SERVICE BUREAU COMMENT

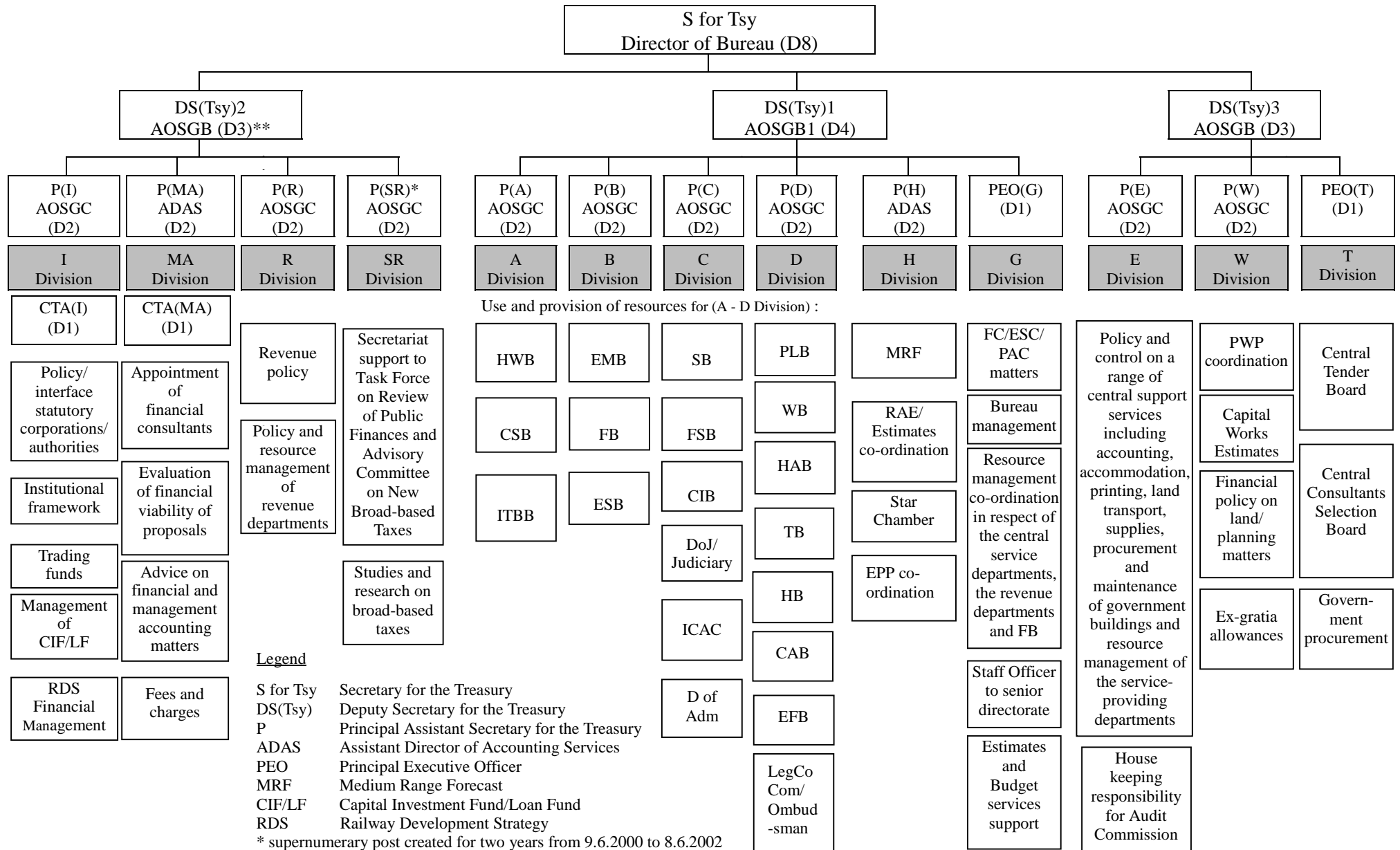
18. There are now three Deputy Secretaries in the Finance Bureau, one ranked at AOSGB1 (D4) and two at AOSGB (D3). They are underpinned by 15 directorate officers (11 ranked at D2 and four ranked at D1) as detailed in Enclosure 1. Civil Service Bureau agrees that the existing and expected duties of DS(Tsy)2 in the coming few years are higher than the rank of AOSGB (D3), and that the other Deputies are fully occupied with their own heavy schedule of duties, hence it is not practicable to reshuffle the duties amongst the Deputy Secretaries. Having regard to the reasons set out in this paper, Civil Service Bureau considers that the proposed creation of a supernumerary AOSGB1 (D4) post for three years to be held against the AOSGB (D3) post of DS(Tsy)2 is reasonable and justified. The grading and ranking proposals are supported.

ADVICE OF THE STANDING COMMITTEE ON DIRECTORATE SALARIES AND CONDITIONS OF SERVICE

19. As the post is proposed on a supernumerary basis, its creation, if approved, will be reported to the Standing Committee on Directorate Salaries and Conditions of Service in accordance with the agreed procedure.

Organisation Chart of Finance Bureau

Enclosure 1 to EC(2001-02)9



**Main Duties of Deputy Secretary for the Treasury (2)
(Administrative Officer Staff Grade B (D3))**

Responsible to the Secretary for the Treasury for the following –

1. Supervising the work of Investment, Management Accounting, Revenue and Special Review Divisions.
2. Policy responsibility for -
 - financial arrangements for major infrastructure projects
 - government investment and loan portfolios
 - trading funds
 - revenue and taxation
 - fees and charges
 - government utilities
 - fiscal reserve
3. Vetting private sector infrastructural proposals insofar as they impinge on the financial position of the Government.
4. Resource management for Inland Revenue Department and Rating and Valuation Department and the revenue protection and taxation programmes of Customs and Excise Department and Civil Aviation Department.
5. Coordinating the preparation of revenue, Capital Investment Fund and Loan Fund estimates.
6. Representing Government's interest as shareholder in statutory bodies.
7. Attendance at Board and Committee meetings of the Mass Transit Railway Corporation, Kowloon-Canton Railway Corporation, Airport Authority, Hong Kong Housing Authority and Hong Kong Industrial Estates Corporation.

Enclosure 3 to EC(2001-02)9

Capital Investment Fund

STATEMENT OF INVESTMENTS

Descriptions	Balance at 1.4.1999 \$'000	Investments Approved \$'000	Payments Made \$'000	Other Investments \$'000	Total Investments at 31.3.2000 \$'000	Nominal Holding (No. of shares)
EQUITY HOLDINGS						
Airport Authority	36,648,000	36,648,000	-	-	(a) 36,648,000	366,480
			36,369,760	278,240		
Asian Development Bank	87,243	87,688	-	-	87,243	1,350
			87,243	-		
Hong Kong IPM Manpower International Ltd.	2,000	2,000	(b) (515)	(c) (1,485)	-	-
			1,485	(1,485)		
Hong Kong Industrial Technology Centre Corporation	250,000	250,000	-	-	250,000	250,000,000
			250,000	-		
Hongkong International Theme Parks Ltd.	-	(d) 3,250,000	10,000	4,000,000	4,010,000	(e) 4,010,000,000
			10,000	4,000,000		
Kowloon-Canton Railway Corporation	22,620,000	29,000,000	8,500,000	-	31,120,000	311,200
			28,999,862	2,120,138		
Mass Transit Railway Corporation	32,188,100	32,244,236	-	-	32,188,100	321,881
			32,188,100	-		
New Hong Kong Tunnel Company Ltd.	56,250	N.A.	-	-	56,250	5,625,000
			-	56,250		
The Applied Research Council	175,000	175,000	-	-	175,000	175,000,000
			175,000	-		
Tradelink Electronic Commerce Ltd.	61,125	56,125	-	-	(f) 61,125	978
			56,125	5,000		
TOTAL FOR EQUITY HOLDINGS	92,087,718	N.A.	8,509,485	3,998,515	104,595,718	N.A.
			98,137,575	6,458,143		
OTHER CAPITAL INVESTMENTS						
Hong Kong Housing Authority – Permanent government capital	13,488,797	N.A.	-	-	(g) 13,488,797	N.A.
			-	13,488,797		
Contributions to domestic housing	234,972,924	N.A.	-	31,208,287	(h) 266,181,211	N.A.
			-	266,181,211		
Non-domestic equity	17,276,224	N.A.	-	2,584,126	(h) 19,860,350	N.A.
			-	19,860,350		
Hong Kong Export Credit Insurance Corporation	20,000	20,000	-	-	(i) 20,000	N.A.
			20,000	-		
Companies Registry Trading Fund	138,460	N.A.	-	-	(j) 138,460	N.A.
			-	138,460		
Electrical and Mechanical Services Trading Fund	706,600	N.A.	-	-	(j) 706,600	N.A.
			-	706,600		
Land Registry Trading Fund	118,300	N.A.	-	-	(j) 118,300	N.A.
			-	118,300		
Office of the Telecommunications Authority Trading Fund	212,400	N.A.	-	-	(j) 212,400	N.A.
			-	212,400		
Post Office Trading Fund	(k) 2,101,000	N.A.	-	-	(j) 2,101,000	N.A.
			-	2,101,000		
TOTAL FOR OTHER CAPITAL INVESTMENTS	269,034,705	N.A.	-	33,792,413	302,827,118	N.A.
			20,000	302,807,118		
GRAND TOTAL	361,122,423	N.A.	8,509,485	37,790,928	407,422,836	N.A.
			98,157,575	309,265,261		

N.A.- Not applicable

	1999-2000 Figures
	Cumulative figures

(extracted from page 348 of the "Accounts of the Government for the year ended 31 March 2000")

Capital Investment Fund

STATEMENT OF LOANS

Descriptions	Balance at 1.4.1999 \$'000	Loans Approved \$'000	Loans Made \$'000	Loans Repaid \$'000	Loans Outstanding at 31.3.2000 \$'000
Hong Kong Housing Authority	9,604,715	N.A.	-	(810,177)	8,794,538
			12,795,588	(4,001,050)	
Hong Kong IPM Manpower International Ltd.	1,000	1,000	-	(a) (1,000)	-
			1,000	(1,000)	
Hong Kong Industrial Technology Centre Corporation	-	188,000	-	-	-
			-	-	
Hongkong International Theme Parks Ltd.	-	5,619,000	-	-	-
			-	-	
Tradelink Electronic Commerce Ltd.	195,000	425,000	-	(195,000)	-
			200,000	(200,000)	
Companies Registry Trading Fund					
- loan for appropriated assets	138,350	N.A.	-	(27,670)	110,680
			276,700	(166,020)	
- loan for working capital	-	(b) 20,000	-	-	-
			100	(100)	
<i>Total for Companies Registry Trading Fund</i>	<i>138,350</i>	<i>N.A.</i>	<i>-</i>	<i>(27,670)</i>	<i>110,680</i>
			<i>276,800</i>	<i>(166,120)</i>	
Electrical and Mechanical Services Trading Fund					
- loan for appropriated assets	242,240	N.A.	-	(30,280)	211,960
			302,800	(90,840)	
- loan for working capital	-	(b) 150,000	-	-	-
			105,000	(105,000)	
<i>Total for Electrical and Mechanical Services Trading Fund</i>	<i>242,240</i>	<i>N.A.</i>	<i>-</i>	<i>(30,280)</i>	<i>211,960</i>
			<i>407,800</i>	<i>(195,840)</i>	
Land Registry Trading Fund					
- loan for appropriated assets	118,300	N.A.	-	(23,660)	94,640
			236,600	(141,960)	
- loan for working capital:					
term loan	5,200	13,000	-	(2,600)	2,600
			13,000	(10,400)	
revolving loan	-	115,000	-	-	-
			-	-	
<i>Total for Land Registry Trading Fund</i>	<i>123,500</i>	<i>N.A.</i>	<i>-</i>	<i>(26,260)</i>	<i>97,240</i>
			<i>249,600</i>	<i>(152,360)</i>	
Post Office Trading Fund					
- loan for appropriated assets	630,280	N.A.	-	(90,040)	540,240
			900,400	(360,160)	
TOTAL	10,935,085	N.A.	-	(1,180,427)	9,754,658
			14,831,188	(5,076,530)	

N.A.- Not applicable

	1999-2000 Figures
	Cumulative figures

Notes:

- (a) Loan written off in connection with the winding up of the Company.
(b) These are overdraft facilities for the Trading Funds.

Enclosure 5 to EC(2001-02)9

Loan Fund

STATEMENT OF LOANS

Descriptions	Balance at 1.4.1999 \$'000	Loans Approved \$'000	Loans Made \$'000	Loans Repaid \$'000	Loans Outstanding at 31.3.2000 \$'000
HOUSING LOANS					
Hong Kong Housing Society – Completed schemes	36,712	146,019	-	(5,402)	31,310
Urban improvement schemes	67,233	250,000	146,018	(114,708)	45,906
Rural public housing			250,000	(204,094)	
(i) Tui Min Hoi	21,020	30,300	-	(820)	20,200
(ii) Sha Tau Kok	89,321	110,500	30,300	(10,100)	86,328
Sandwich class housing	8,586,595	13,900,000	110,500	(24,172)	1,399,545
Sandwich class housing loan scheme	1,380,000	1,380,000	92,306	(7,279,356)	453,000
Home starter loan scheme	3,600,000	18,000,000	(a) 9,215,808	(7,816,263)	7,200,000
			1,380,000	(927,000)	
			3,600,000	-	
			7,200,000	-	
Local government officers – Loans 3½% to 5% p.a.	8,306	179,800	-	(1,548)	6,758
Loans to members of co-operative building societies & underlessees of government-built housing schemes	-	60,000	179,767	(173,009)	-
Hong Kong Settlers Housing Corporation Ltd.	7,671	10,000	-	(199)	7,472
Housing assistance for civil servants- housing loans	8,283,316	10,438,000	10,000	(2,528)	8,586,798
Hong Kong Institute of Education	2,778	30,000	1,466,001	(1,162,519)	-
			(b) 8,586,798	-	
			4,175	(4,175)	
TOTAL FOR HOUSING LOANS	22,082,952	44,534,619	5,158,307	(9,403,942)	17,837,317
			27,113,366	(9,276,049)	
EDUCATION LOANS					
Loans to Schools/Teachers					
Loans to schools	20,319	222,086	-	(3,627)	16,692
Loans to schools in the bought place scheme	291,375	490,000	221,488	(204,796)	291,375
Loans to schools in the direct subsidy scheme	53,533	181,961	291,375	-	120,047
Loans to non-profit-making international schools	111,391	188,391	79,769	(13,255)	106,921
Slope improvement loan scheme for private schools	-	100,000	181,961	(61,914)	-
Loans to teachers in training	2,849	N.A.	111,391	(4,470)	756
			-	-	
			-	-	
			77,076	(76,320)	

N.A.- Not applicable

	1999-2000 Figures
	Cumulative figures

(extracted from page 352 of the "Accounts of the Government for the year ended 31 March 2000")

Descriptions	Balance at 1.4.1999 \$'000	Loans Approved \$'000	Loans Made \$'000	Loans Repaid \$'000	Loans Outstanding at 31.3.2000 \$'000
Loans to Students					
Students of the universities, the Hong Kong Institute of Vocational Education, Prince Philip Dental Hospital, Hong Kong Institute of Education and Hong Kong Academy for Performing Arts	3,784,794	N.A.	606,261 6,360,003	(c) (609,201) (2,578,149)	3,781,854
Non-means-tested loan scheme for students of government-funded tertiary institutions, Open University of Hong Kong and Hong Kong Shue Yan College	320,639	N.A.	277,483 598,122	(31,531) (31,531)	566,591
Students of approved post-secondary colleges	47,365	N.A.	15,391 149,669	(6,954) (93,867)	55,802
Hong Kong students in the United Kingdom	12,198	N.A.	- 173,424	(7,084) (168,310)	5,114
TOTAL FOR EDUCATION LOANS	4,644,463	N.A.	978,904 8,164,509	(678,215) (3,219,357)	4,945,152
OTHER LOANS					
Labour					
Loans to employees injured at work and dependants of deceased employees	1,891	10,000	552 (b) 1,898	(c) (545) -	1,898
Loans for starting up occupational deafness compensation scheme	89,000	115,000	- 115,000	(13,000) (39,000)	76,000
Primary Products					
Fisheries Loans	22,908	100,000	13,510 (b) 34,629	(1,789) -	34,629
Kadoorie Agricultural Aid Loan Fund – Livestock waste control scheme	19,744	80,500	- (a) 19,744	(8,340) (8,340)	11,404
Loans to poultry farmers	10,395	80,000	638 14,638	(9,102) (12,707)	1,931
Loans to mariculturists	126,107	200,000	3,689 130,189	(13,285) (13,678)	116,511
Loans to poultry wholesalers and retailers	67,092	570,000	550 81,498	(56,784) (70,640)	10,858
Fish Marketing Organization Loan Fund – loans to fishermen	-	65,000	46,645 46,645	(8,841) (8,841)	37,804
Development of Industrial Estates – Hong Kong Industrial Estates Corporation					
Tseung Kwan O Industrial Estate Loan	253,426	900,000	- (a) 295,663	(42,238) (84,475)	211,188
Land Development					
Land Development Corporation	23,674	100,000	- 31,150	(1,246) (8,722)	22,428

N.A.- Not applicable

 1999-2000 Figures
 Cumulative figures

Descriptions	Balance at 1.4.1999 \$'000	Loans Approved \$'000	Loans Made \$'000	Loans Repaid \$'000	Loans Outstanding at 31.3.2000 \$'000
Industry					
Hong Kong Productivity Council – special purpose building	156,305	266,970	-	(13,026)	143,279
			(a) 267,810	(124,531)	
Hong Kong Quality Assurance Agency	5,041	20,000	-	(4,575)	466
			20,000	(19,534)	
Estate Agents Authority					
Loans to Estate Agents Authority	40,000	40,000	-	(4,000)	36,000
			40,000	(4,000)	
Fire Safety					
Fire safety improvement loan scheme	-	200,000	-	-	-
			-	-	
Building Safety					
Building safety improvement loan scheme	508	500,000	3,353	(269)	3,592
			(b) 3,592	-	
Provisional Regional Council					
Regional Services Department headquarters building	49,500	60,000	-	(c) (49,500)	-
			60,000	(60,000)	
Tourism					
International Events Fund	100,000	100,000	-	-	100,000
			(b) 100,000	-	
Ocean Park Lowland Redevelopment Fund	-	500,000	-	-	-
			-	-	
Small and Medium Enterprises					
Special finance scheme for small and medium enterprises	141,080	5,000,000	170,345	(142,080)	169,345
			169,345	-	
Water Supply					
Loan to the Guangdong Provincial People's Government for water quality improvement project	295,500	2,364,000	295,500	-	591,000
			591,000	-	
TOTAL FOR OTHER LOANS	1,402,171	11,271,470	534,782	(368,620)	1,568,333
			2,022,801	(454,468)	
GRAND TOTAL	28,129,586	N.A.	6,671,993	(10,450,777)	24,350,802
			37,300,676	(12,949,874)	

N.A.- Not applicable

	1999-2000 Figures
	Cumulative figures

Notes:

(a) These include capitalized interest amounting to \$1,491.478 million in respect of sandwich class housing scheme loan, \$0.964 million in respect of Kadoorie Agricultural Aid Loan Fund, \$69.263 million in respect of the Tseung Kwan O Industrial Estate loan and \$18.385 million in respect of the Hong Kong Productivity Council loan, as at 31 March 2000.

(b) These are revolving funds and therefore the amounts shown are outstanding loans as at 31 March 2000.