

**Bills Committee on  
Kowloon-Canton Railway Corporation (Amendment) Bill 2001  
 (29 November 2001)**

**PURPOSE**

This paper provides information on the supplementary questions raised by Members at the meeting on 23 November 2001.

**The delineation of roles and responsibilities between government and KCRC in formulating and implementing railway policy. In the event of a serious policy failure or mismanagement, which stakeholder should be personally held responsible for the incident?**

The Role of Government

2. The Government formulates the policy on the development of railway in Hong Kong. The current policy objective is that railways, being safe, efficient, reliable and environmentally friendly, should become the backbone of the public transport system.

3. The Government also determines the strategy in the development and expansion of the railway network to fulfill our policy objective. This function is performed by the formulation of Railway Development Strategy (RDS), the first one in 1994 and the second one in 2000. The objectives of the RDS are to :-

- (a) establish an optimal railway network and determine the preferred route which best serves the economic, social and recreational needs of the community; and
- (b) establish the priorities and timing for implementation of the rail corridors.

4. Whilst KCRC is responsible for the construction of the new railways assigned to it, the Government monitors the implementation of the railway projects by KCRC and its progress. The Government is also the regulator of the railway services provided by KCRC, in particular the safety of railway operation.

The Role of KCRC

5. KCRC undertakes detailed design of new railway projects assigned to it and constructs the new railways concerned. It is often entrusted with the

construction of essential public infrastructure works associated with those new railways.

6. After the commissioning of the railways, KCRC operates the railway systems concerned and provides the train services. Currently it operates the East Rail and the Light Rail.

7. KCRC also handles the development of property at railway stations and deals with the commercial activities associated with the operation of railways (such as advertising at stations).

#### Responsibilities of the Government and Kowloon-Canton Railway Corporation

8. The responsibilities of the Government and KCRC in the event of a serious policy failure or mismanagement would depend on the area in which such failure or mismanagement occurs.

9. The Government's responsibility is to ensure that the transport policy and the railway development strategy are formulated properly to serve the transport needs of the community. For railway projects undertaken by KCRC, the Government has a monitoring responsibility to ensure that the projects would be completed by KCRC on time and within budget.

10. As regards the existing railway systems operated by KCRC, the Government has the responsibility to take action as a regulator in accordance with the relevant rules and regulations to ensure that the necessary arrangements are put in place by KCRC to prevent or resolve operational problems that may occur.

11. Within the Government, the Transport Bureau has the policy responsibility over the duties mentioned in paragraphs 9 and 10 above. The technical and operational issues are dealt with by the Highways Department, the Transport Department, the Hong Kong Railway Inspectorate and other relevant departments as appropriate.

12. As the delivery agent of new railway projects, KCRC has the responsibility to complete the projects on time and within budget. It will also ensure that the new railways are in all aspects ready to provide a safe and reliable service to the public upon commissioning.

13. For its existing railway systems, KCRC has the management and operational responsibility to ensure that it can provide a safe and reliable train service to the public. KCRC is also responsible for its property development activities and commercial matters.

14. Within the Corporation, the KCRC Board is responsible, inter alia, for overall company strategy, acquisition and divestment policy, approval of the Corporation's annual estimates of revenue and expenditure, major financing arrangements, passenger fares and freight charges, and for ensuring that sound administrative systems and procedures are in place. The functions of the Board are discharged jointly by the Chairman and the Board Members.

15. The executives are responsible for the day-to-day running of the Corporation. This includes implementation of the new railway projects, provision of existing railway services and operational issues related to property development and commercial activities. The duties are carried out by KCRC staff led by the chief executive of the Corporation.

#### **Membership of the Audit Committee of the KCRC Board for the past five years**

16. Membership of the Audit Committee from 1997 to 2001 is as follows :-

(a)	Mr Denys Connolly	(1997-2001)
(b)	Mr Moses Cheng Mo-Chi	(1997-1998)
(c)	Hon Tim Chung Shui-ming	(1999-2001)
(d)	Secretary for the Treasury	(1997-2001)

#### **Whether the reports on the work of the Audit Committee could be released to the Bills Committee**

17. According to KCRC, papers on matters considered by the Audit Committee are presented to the Board on a need basis. KCRC has advised us that it is not appropriate to disclose these papers since they contain commercially sensitive information or concern investigations related to individual staff. However, a summary report on the work of the Committee is set out below.

18. The Audit Committee consists of three non-executive Members of the Board. Under the KCRC Board, the Audit Committee has a well-developed and structured approach to audit the activities of the Corporation. Each year, in addition to reviewing the annual accounts, the Committee agrees the programme of work of the Corporation's Internal Audit Department. The programme covers three basic areas, namely financial, accounting and operational controls. Ad hoc investigations are also carried out by the Department.

19. The scope of deliberations of the Committee include :-

- (a) reviewing the Corporation's annual accounts prior to their submission for approval by the Board;
- (b) monitoring accounting policies;
- (c) considering matters relating to management and internal controls;
- (d) receiving and appraising assessments from the internal and external auditors; and
- (e) making recommendations to the Board on the appointment and remuneration of the external auditors, and on other matters which may require a decision by the Board.

**Whether the Government would consider increasing the number of KCRC Board Members and appointing individuals from Green Groups, grass root organisations and Legislative Council to ensure a balanced composition of the KCRC Board to handle its activities**

20. The KCRC Board currently has nine members including the Chairman. This size has been serving the Corporation well. The proposed creation of the CEO office who shall be a member of the Board, if approved by LegCo, will increase the number of Board members to ten. The proposed separation of the Chairman and the CEO will also enhance the Board's capacity of independent decision making. We, therefore, propose to focus the Bill on the separation of the Chairman and the CEO. When there is a need to further increase the size of the Board in future, we will consider the extent to which the number should be increased.

21. In making appointments to the Board, the Government will carefully assess the suitability of prospective candidates having regard to relevant factors such as personal abilities, leadership qualities, expertise, experience, integrity and commitment to public service. The Government will review the composition of Board members from time to time to ensure that the Board is served by the best available candidates and has a good mix of expertise and experience. For this purpose, the Government will consider candidates from different sectors of the community, including those mentioned by Bills Committee members at the meeting on 23 November 2001.

**Whether the Government would consider adding a new provision in the Bill to require the KCRC Board Chairman and the new Chief Executive Officer (CEO) to attend meetings of the committees and sub-committees of Legislative Council upon request**

22. It is present practice, when requested by LegCo, for senior KCRC management to attend meetings of the committees or sub-committees of LegCo as appropriate. In fact the senior KCRC management has always been obliging in response to request for attendance. More recent examples include :-

- (a) consultation on KCRC fare review with LegCo Panel on Transport on 22 June 2001 where the Chairman cum chief executive and three executive directors were present; and
- (b) briefing on West Rail development on 10 July 2001 for the Sub-Committee on Matters Relating to the Implementation of Railway Development Projects of the LegCo Panel on Transport, where the Chairman cum chief executive and two executive directors were present.

23. We are confident that the senior KCRC management will continue to respond positively to requests for attendance at meetings of the committees and sub-committees of LegCo after the proposed separation of the duties and functions of the Chairman and CEO.

**The appointment criteria for the KCRC Board Chairman**

24. We believe the Chairman should possess the following qualities :-

- (a) he should have sufficient knowledge, experience and ability in

leading the operation of an organisation like KCRC;

- (b) he should be of high calibre and broad outlook to guide KCRC in setting long term business strategy; and
- (c) he should be able to devote sufficient time to discharging his duties.

**Whether the Government would consider disclosing the amount of the new CEO's remuneration**

25. KCRC maintains the same high standard of disclosure observed by companies listed on the Hong Kong Stock Exchange. The Listing Rules requires the disclosure of the aggregate amount of employees' remuneration together with banding analysis for the five highest paid employees in the annual reports. The banding analysis is required to show the emoluments of directors in a number of bands in multiples of \$500,000. KCRC adopts the same standard of disclosure in its annual report (see **Annex**). The Corporation will disclose the remuneration of the new CEO on the same basis.

----- Ends -----

Transport Bureau  
28 November 2001