

## **ITEM FOR ESTABLISHMENT SUBCOMMITTEE OF FINANCE COMMITTEE**

### **HEAD 158 – GOVERNMENT SECRETARIAT : ENVIRONMENT, TRANSPORT AND WORKS BUREAU (TRANSPORT BRANCH)**

#### **Subhead 000 Operational expenses**

Members are invited to recommend to Finance Committee the retention of the following two supernumerary posts in the Transport Branch of the Environment, Transport and Works Bureau for 12 months from 1 July 2006 to 30 June 2007 –

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

1 Administrative Officer Staff Grade C  
(D2) (\$110,000 - \$116,800)

#### **PROBLEM**

The existing two supernumerary posts of one Administrative Officer Staff Grade B (AOSGB) (D3) and one Administrative Officer Staff Grade C (AOSGC) (D2) created in the Transport Branch (TB) of the Environment, Transport and Works Bureau (ETWB) on 1 July 2004 to oversee the related work for the possible merger of the MTR Corporation Limited (MTRCL) and Kowloon-Canton Railway Corporation (KCRC) will lapse on 1 July 2006. There is a need to retain these two supernumerary posts beyond this date until completion of the merger exercise, as the existing directorate support in TB is not adequate to cope with the additional workload arising from the exercise.

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**PROPOSAL**

2. We propose to retain the two supernumerary posts of one AOSGB (D3) and one AOSGC (D2) for a period of 12 months from 1 July 2006 to 30 June 2007, to follow through the implementation of the proposed rail merger.

**JUSTIFICATION**

Encls.  
1 & 2

3. On 14 May 2004, the Finance Committee approved vide EC(2004-05)3 the creation of the two supernumerary posts of one AOSGB (D3) and one AOSGC (D2), viz., the Deputy Secretary for the Environment, Transport and Works (Transport)4 (DS(T)4) and the Principal Assistant Secretary for the Environment, Transport and Works (Transport) Special Duties (PAS(T)SD) in TB with effect from 1 July 2004 for a period of two years up to 30 June 2006 to cope with the additional workload arising from a possible merger of MTRCL and KCRC. The original job descriptions of the DS(T)4 and PAS(T)SD posts when approved in May 2004 are at Enclosures 1 and 2 respectively. The two posts will lapse on 1 July 2006.

4. ETWB is responsible for the overall co-ordination of the merger exercise in conjunction with the Financial Services and the Treasury Bureau and close liaison with the two railway corporations and the other relevant government bureaux and departments. Within ETWB, the merger exercise was taken up by the dedicated team led by DS(T)4 with support at the directorate level by PAS(T)SD. The merger discussions cover a wide range of complex issues including, for example, assessment of potential for merger synergies, review of fare structure, proposal for a more objective and transparent fare adjustment mechanism, interchange arrangements for railway projects under planning, arrangements for future integration from the human resource perspective, and regulatory framework for railway operation in future after the merger. DS(T)4 is also the overall co-ordinator within ETWB in overseeing the discussions on the structure and terms for the proposed merger. The two railway corporations reported the outcome of their merger discussions to the Government in September 2004. Since then, further discussions have been conducted on the terms for the possible merger. The discussions have taken longer time than expected to complete, as more time was needed to reach agreement on a merger package that could balance the interests of all stakeholders.

5. On 11 April 2006, the Government announced that it had reached an understanding with MTRCL on the structure and terms for merging the MTR and Kowloon-Canton Railway (KCR) systems. If there is general support for the rail

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merger, we would proceed with the necessary legislative exercise. There is a need to retain the DS(T)4 and PAS(T)SD posts beyond 30 June 2006 for the subsequent preparation and implementation of the proposed rail merger. The need for a longer duration of the two supernumerary posts beyond 30 June 2006 could not have been anticipated at the time the posts were created two years ago.

6. The continual service of DS(T)4 and PAS(T)SD is required to oversee the completion of the discussions on the detailed terms for the merger, preparation of an integrated Operating Agreement which would stipulate the service and safety standards to be observed by the post-merger corporation, preparation of the necessary legislation and completion of the legislative process, and the planning for and oversight of the implementation of the merger during the proposed extension period. They will also be responsible for the overall public relations strategy of the merger exercise to facilitate effective communication with all stakeholders and provision of policy guidance at Bureau level on a whole range of merger-related transport issues arising from the merger implementation. The two officers will also be responsible for co-ordinating Government's input to integration planning to help set out the framework for the transitional arrangements to ensure a smooth transition and integration. They will also facilitate the integration work of the two railway corporations until completion of the merger. A number of the joint committees would be set up in conjunction with MTRCL and KCRC for implementation of the merger, as well as to facilitate further detailed discussions between the two railway corporations and Government on the legislative amendments required for the merger and on various other aspects of the transitional arrangements such as financial, legal, operation, human resource, implementation of new railway projects, etc. Our current estimate is that, depending on the progress of the various steps in the process of merger discussions and implementation, the whole process for implementing the merger will likely take approximately one year to complete.

7. Taking into account the complexity of and the procedures required for the merger exercise which require high level policy input, we propose to retain the DS(T)4 and PAS(T)SD posts for 12 months with effect from 1 July 2006 up to 30 June 2007. This will ensure that the dedicated team set up within ETWB for the merger exercise will be able to oversee the completion of the merger process. The revised job descriptions of DS(T)4 and PAS(T)SD are at Enclosures 3 and 4 respectively. The existing and proposed organisation chart of TB is at Enclosure 5.

Encls.  
3 & 4  
Encl. 5

/8. ....

8. Depending on the progress of the legislative process and the merger implementation, these two posts may require further extension. On the other hand, if the merger exercise is completed earlier, we will report to the Establishment Subcommittee as soon as practicable and the two supernumerary posts concerned would be proposed for deletion.

### ALTERNATIVES CONSIDERED

9. The level and complexity of the responsibilities of the DS(T)4 and PAS(T)SD posts call for dedicated attention and input at AOSGB (D3) and AOSGC (D2) levels respectively. We have critically examined the possible redeployment of existing directorate posts to take on the work of the DS(T)4 and PAS(T)SD posts during the proposed extension period. As all the other Deputy Secretaries and Principal Assistant Secretaries are fully engaged in their own schedules of duties, it is operationally not possible for them to take up the tasks without adversely affecting the discharge of their current duties, in particular when the workload of the two supernumerary posts are expected to remain very heavy throughout the merger exercise.

### FINANCIAL IMPLICATIONS

10. The proposed retention of the two supernumerary directorate posts will bring about an additional notional annual salary cost at mid-point of \$2,941,200 as follows –

<b>Rank</b>	<b>Notional annual salary cost at mid-point (\$)</b>	<b>No. of Post</b>
<b>Supernumerary posts</b>		
AOSGB (D3)	1,580,400	1
AOSGC (D2)	1,360,800	1
Total	<u>2,941,200</u>	<u>2</u>

The full annual average staff cost, including salaries and staff on-costs, is \$4,276,000. The additional resources required will be met by internal redeployment of existing resources within ETWB. The proposal is covered in ECI(2005-06)6 on “Overall directorate establishment position”.

/CONSULTATION .....

## CONSULTATION WITH LEGISLATIVE COUNCIL PANEL

11. We consulted the Legislative Council (LegCo) Panel on Transport on 28 April 2006 on the proposed extension of the two supernumerary directorate posts. Members supported the proposal. In response to an enquiry from a Member, we confirmed that if the merger exercise was completed earlier, the two supernumerary posts would be proposed for deletion as soon as practicable.

## BACKGROUND

12. In June 2002, the Chief Executive-in-Council directed the Administration to conduct a feasibility study to look into the benefits and costs of merging MTRCL and KCRC. It was then decided in February 2004 that the two corporations be invited to commence negotiations on a possible merger on the basis of the parameters defined by the Government.

13. We briefed the LegCo Panel on Transport and the Panel on Financial Affairs on 12 April 2006 on the merger package and the proposed next steps, and discussed in detail the various aspects of the merger package on 28 April, 22 May and 23 May 2006.

## ESTABLISHMENT CHANGES

14. The establishment changes in TB for the past two years are as follows –

Establishment (Note)	Number of posts			
	Existing (As at 1 May 2006)	As at 1 April 2006	As at 1 April 2005	As at 1 April 2004
A	14+(2) <sup>@</sup>	14+(2)	14+(2)	13
B	32	32	32	31
C	64	64	66	44
<b>Total</b>	<b>110+(2)</b>	<b>110+(2)</b>	<b>112*+(2)</b>	<b>88</b>

### Note

- A – ranks in the directorate pay scale or equivalent
- B – non-directorate ranks the maximum pay point of which is above MPS Point 33 or equivalent
- C – non-directorate ranks the maximum pay point of which is at or below MPS Point 33 or equivalent and Model Scale I
- ( ) – number of supernumerary directorate posts
- \* – the increase over 1 April 2004 is mainly due to the cost neutral transfer of posts from the Works Branch to TB upon de-centralisation of the administrative function of ETWB
- @ – as at 1 May 2006, there were no unfilled directorate posts in TB.

**CIVIL SERVICE BUREAU COMMENTS**

15. The Civil Service Bureau supports the proposed retention of the two supernumerary posts for 12 months to ensure adequate directorate support in overseeing the implementation of the proposed merger of the MTR and KCR systems. The grading and ranking of the proposed posts are appropriate having regard to the level and scope of the responsibilities required.

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

16. As the posts are proposed on a supernumerary basis, their retention, if approved, will be reported to the Standing Committee on Directorate Salaries and Conditions of Service in accordance with the agreed procedure.

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Environment, Transport and Works Bureau  
May 2006

**Original Job Description for  
Deputy Secretary for  
the Environment, Transport and Works (Transport)<sup>4</sup>  
(as shown in Enclosure 1 to EC(2004-05)3 and  
approved by the Finance Committee in May 2004)**

**Rank** : Administrative Officer Staff Grade B (D3)

**Responsible to** : Permanent Secretary for the Environment, Transport and Works (Transport)

**Main Duties and Responsibilities –**

1. To oversee the operation of the merger steering committee and the merger management committee, provide policy input to facilitate the timely conclusion of the negotiations between the MTR Corporation Limited and the Kowloon-Canton Railway Corporation on a possible merger, provide policy guidance on the assessment of the outcome of the negotiations and recommend the optimal form of legal and regulatory framework for the merged corporation.
2. To provide policy guidance on all transport-related issues arising from the merger exercise.
3. To provide policy guidance on a whole range of corporate governance issues relating to the formation of the merged corporation.
4. To supervise the preparation of the governing legislation and an integrated Operating Agreement for regulating the operation of the merged corporation and oversee the completion of the legislative process.
5. To set up the legal and regulatory framework for the merged corporation and oversee the implementation of the merger.

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**Original Job Description for  
Principal Assistant Secretary for  
the Environment, Transport and Works (Transport) Special Duties**  
(as shown in Enclosure 2 to EC(2004-05)3 and  
approved by the Finance Committee in May 2004)

**Rank** : Administrative Officer Staff Grade C (D2)

**Responsible to** : Deputy Secretary for the Environment, Transport and  
Works (Transport) 4

**Main Duties and Responsibilities –**

1. To provide policy and administrative support for the merger steering committee and the merger management committee.
2. To examine and advise on the policy implications of all transport-related issues arising from the merger exercise in consultation with the relevant government bureaux and departments, including all matters relating to the parameters set by the Government for the negotiations.
3. To develop policy proposals on corporate governance of the merged corporation.
4. To prepare the governing legislation and an integrated Operating Agreement for regulating the operation of the merged corporation in conjunction with the Department of Justice and other relevant parties and assist in the legislative process.
5. To assist in setting up the legal and regulatory framework for the merged corporation and co-ordinate with the railway corporations and the relevant government bureaux and departments to work out and implement transitional arrangements for implementing the merger.
6. To manage the Government's consultant(s) in respect of matters concerning the traffic, transport and railway operation aspects of the merger exercise.

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**Revised Job Description for  
Deputy Secretary for  
the Environment, Transport and Works (Transport)4**

**Rank** : Administrative Officer Staff Grade B (D3)

**Responsible to** : Permanent Secretary for the Environment, Transport and Works (Transport)

**Main Duties and Responsibilities –**

1. To jointly lead the Government's negotiation team (in conjunction with the Financial Services and the Treasury Bureau) and provide policy input to the discussions with the MTR Corporation Limited (MTRCL) and Kowloon-Canton Railway Corporation (KCRC) on the detailed transaction terms for the merger.
2. To oversee and provide guidance on the finalisation of the merger transaction documents.
3. To provide policy guidance on all transport-related issues arising from the merger exercise and the formulation of public relations strategy to solicit support of the public and various stakeholders for the merger package.
4. To oversee the operation of and participate in the various joint committees between the Government, MTRCL and KCRC to facilitate close liaison between the parties concerned for conclusion of the merger transaction and preparation for seamless integration for the merger, etc.
5. To supervise the preparation of the necessary legislation and an integrated Operating Agreement for regulating future railway operation, and to oversee the completion of the legislative process.
6. To provide policy guidance on the preparation of the framework for the transitional arrangements for merger implementation.

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**Revised Job Description for  
Principal Assistant Secretary for  
the Environment, Transport and Works (Transport) Special Duties**

**Rank** : Administrative Officer Staff Grade C (D2)

**Responsible to** : Deputy Secretary for the Environment, Transport and Works  
(Transport) 4

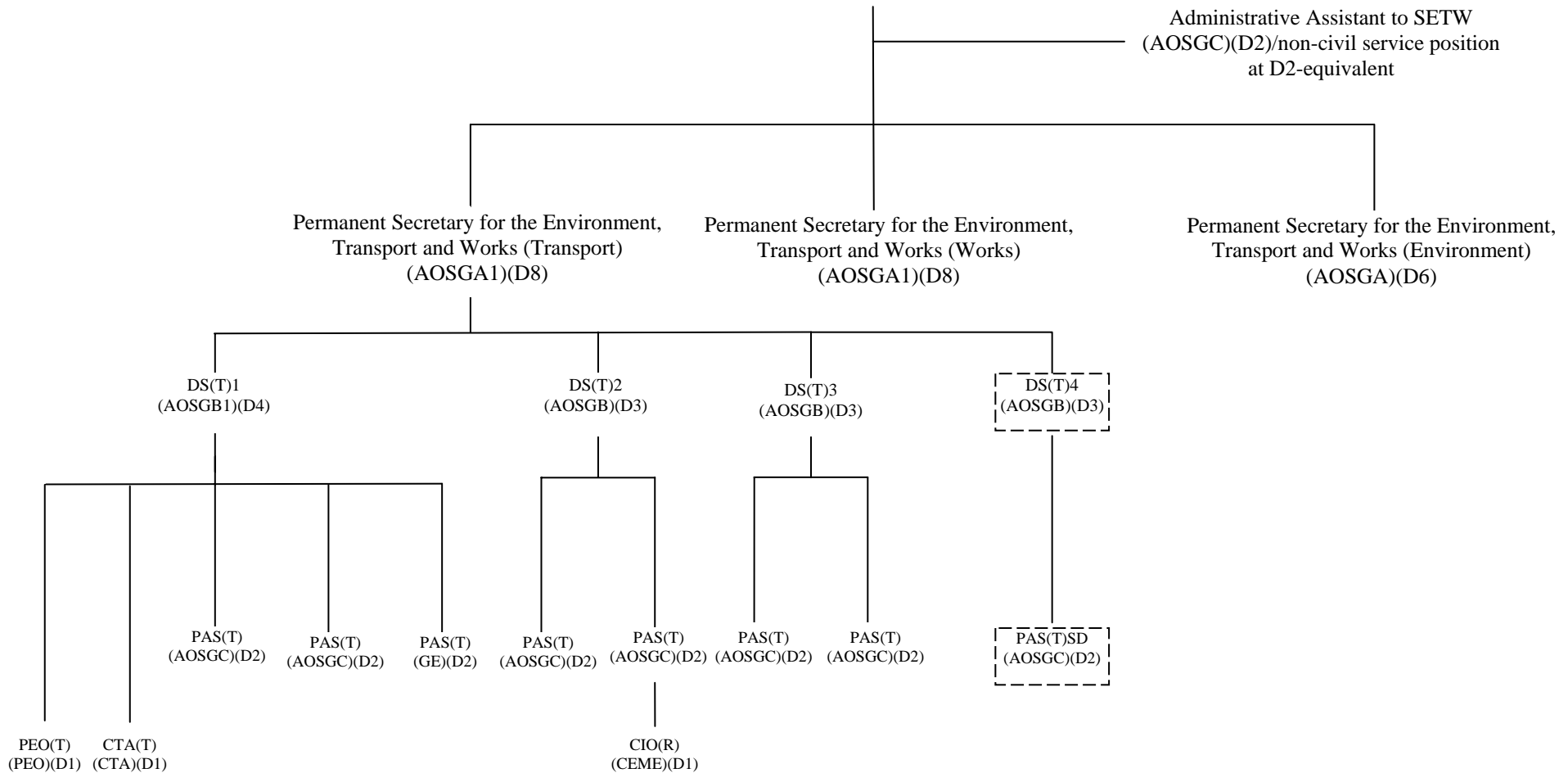
**Main Duties and Responsibilities –**

1. To provide policy and administrative support on the discussions with the MTR Corporation Limited (MTRCL) and Kowloon-Canton Railway Corporation (KCRC) on the detailed transaction terms.
2. To assist in co-ordinating Government's input to the preparation and finalisation of the merger transaction documents.
3. To examine and advise on the policy implications of all transport-related issues arising from the merger exercise in consultation with the relevant government bureaux and departments, and to devise public relations (PR) plans for the merger exercise and co-ordinate with MTRCL and KCRC and the relevant government bureaux and departments on the overall PR strategy.
4. To provide policy and administration support for and participate in the various joint committees between the Government, MTRCL and KCRC to facilitate close liaison between the parties concerned for conclusion of the merger transaction and preparation for seamless integration for the merger, etc.
5. To prepare the necessary legislation and the integrated Operating Agreement in conjunction with the Department of Justice and the two railway corporations and the other relevant parties, and to assist in overseeing the completion of the legislative process.
6. To prepare the framework for the transitional arrangements for merger implementation and co-ordinate Government's input on the integration of the two railway systems to the railway corporations.
7. To manage the Government's consultant(s) in respect of matters concerning the transport and railway operation aspects of the merger exercise.

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**Existing and Proposed Organisation Chart of the Transport Branch of the Environment, Transport and Works Bureau**

Secretary for the Environment, Transport and Works



**Legend**

SETW Secretary for the Environment, Transport and Works  
 DS Deputy Secretary  
 PAS Principal Assistant Secretary  
 AOSGA1 Administrative Officer Staff Grade A1  
 AOSGA Administrative Officer Staff Grade A  
 AOSGB1 Administrative Officer Staff Grade B1  
 AOSGB Administrative Officer Staff Grade B  
 AOSGC Administrative Officer Staff Grade C

PEO Principal Executive Officer  
 GE Government Engineer  
 CTA Chief Treasury Accountant  
 CIO(R) Chief Inspecting Officer (Railways)  
 CEME Chief Electrical and Mechanical Engineer  
 SD Special Duties  
 T Transport

Supernumerary AOSGB and AOSGC posts proposed to be retained up to 30 June 2007