

立法會

Legislative Council

LC Paper No. CB(1)1676/06-07
(These minutes have been seen
by the Administration)

Ref : CB1/PL/TP/1

Panel on Transport

**Minutes of special meeting held on
Saturday, 5 May 2007, at 9:00 am
in the Chamber of the Legislative Council Building**

- Members present** : Hon Andrew CHENG Kar-foo (Chairman)
Hon CHEUNG Hok-ming, SBS, JP (Deputy Chairman)
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon LAU Kong-wah, JP
Hon Miriam LAU Kin-ye, GBS, JP
Hon Albert CHAN Wai-yip
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Hon Jeffrey LAM Kin-fung, SBS, JP
- Members absent** : Hon LAU Chin-shek, JP
Hon LI Fung-ying, BBS, JP
Hon Tommy CHEUNG Yu-yan, JP
Hon LEUNG Kwok-hung
Hon Ronny TONG Ka-wah, SC
- Public Officers attending** : **Agenda item I**

Mr Joshua LAW
Permanent Secretary for the Environment, Transport and Works

Miss Cathy CHU
Deputy Secretary for the Environment, Transport and Works

Mrs Hedy CHU
Principal Assistant Secretary for the Environment, Transport
and Works

Agenda item II

Ms Annette LEE
Deputy Secretary for the Environment, Transport and Works

Miss Rosanna LAW
Principal Assistant Secretary for the Environment, Transport
and Works

Mr Clement LAU
Assistant Secretary for the Environment, Transport and
Works

Agenda item III

Mr Patrick HO
Deputy Secretary for the Environment, Transport and Works

**Attendance by
invitation**

: Agenda item I

Kowloon-Canton Railway Corporation

Mr Michael TIEN
Chairman

Ir James BLAKE
Chief Executive Officer

Mr Raymond WONG
Senior Corporate Affairs Manager

Mr Patrick PAUL
Managing Board Member

Prof Richard WONG
Managing Board Member

Agenda item II

Route 3 (CPS) Company Limited

Mr Vincent FONG
General Manager

Mr Kenneth TSE
Deputy General Manager

Ms Anita LEE
Communications & Commercial Manager

Clerk in attendance : Mr Andy LAU
Chief Council Secretary (1)2

Staff in attendance : Ms Sarah YUEN
Senior Council Secretary (1)6

Miss Winnie CHENG
Legislative Assistant (1)5

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- I** **Kowloon-Canton Railway Corporation's variable pay scheme**
(LC Paper No. CB(1)1521/06-07(01) - Information paper provided by
Kowloon-Canton Railway
Corporation)

Briefing by Kowloon-Canton Railway Corporation

Mr Michael TIEN, Chairman of Kowloon-Canton Railway Corporation (KCRC), briefed members on the KCRC's variable pay scheme (VPS). The opening statement was tabled at the meeting.

2. In response to Mr LAU Kong-wah's enquiry on the Government's stance regarding the VPS, the Permanent Secretary for the Environment, Transport and Works (PS/ETW) stated that the VPS was part of the employment agreement between the KCRC and its employees, and the corporation had to honour the employment terms agreed with the employees. However, in view of the incidents in 2006 concerning the KCRC, the Government had suggested that the employees involved should be requested to consider returning the top-up to the variable pay granted by the Corporation. Having considered the related issues, the Managing Board of KCRC turned down the Government's suggestion.

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3. Mr LAU Kong-wah enquired about the justifications for the Government to request the KCRC staff to return the extra payment under the VPS, and the rationale for the Managing Board to turn down the suggestion.

4. PS/ETW responded that in view of the incidents occurred in 2006 concerning the KCRC, the Government had suggested that the staff should return the extra payment to the corporation, but only if they agreed to do so. Mr Michael TIEN supplemented that the KCRC Managing Board considered that since the VPS was implemented based on a set of objective criteria, the corporation should honour its undertaking under the employment contracts. It would give a wrong signal to the staff that the Managing Board was putting pressure on them if they were asked to voluntarily return the extra payment to the corporation.

5. Mrs Selina CHOW was concerned that since the payments under the VPS were made based on a set of pre-determined performance targets, justifications should be given if the Government suggested that the KCRC staff should return the extra payment made under the VPS.

6. PS/ETW responded that whilst the spirit of a employment agreement should be honoured, a certain degree of flexibility in implementing the terms of the agreement should be acceptable if both sides agreed to the changes. The VPS payments consisted of two components, namely money withheld from the employees' salaries would be released to them if the performance targets were met, and an extra payment would be made to the staff if their performance had exceeded the targets. Since the extra payment was to be borne by KCRC which was funded out of public money, and taking into account the spate of major incidents of the KCRC which had already aroused public concern on the corporation's services and corporate governance, the Government had requested the staff to consider returning the extra payment to the KCRC so as to demonstrate their sense of accountability to the public. Since the introduction of the VPS in 2005, the Government had suggested that the handling of major incidents should be included in the assessment of the Corporation's performance under the VPS. However, the KCRC Managing Board turned down the request as it considered that the performance targets under the VPS should be objective, transparent and measurable. Since any changes to the VPS needed to be agreed between the Corporation and the scheme participants, the Government was obliged to accept the Managing Board's decision.

7. Mr LEE Wing-tat opined that the directors appointed by Government to sit on the managing boards of statutory bodies should protect the public's interest. Mr LEE was concerned that factors like major incidents occurred in KCRC, and the public image of the corporation were not included in the performance targets for determining payment under the VPS. He pointed out that several major incidents in 2006, including the "mutiny" of the management staff, the East Rail underframe equipment mounting cracks incident, the West Rail voltage transformer fire incident had adversely affected the image of KCRC and given rise to doubts on the management capability of the

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corporation. Mr LEE was of the view that the ability to handle contingency situations, and incidents adversely affecting the image of the corporation should be included as the criteria for assessing payments made under the VPS.

8. Mr Michael TIEN responded that to ensure the objectivity and fairness of the VPS, the performance targets used should be measurable or they would easily be manipulated. Indicators like the public image of the corporation could hardly be objectively measured. There were practical difficulties to use performance targets in the VPS which were not measurable or quantifiable. If the KCRC Managing Board had to use its discretion to decide the payments under VPS, it might give rise to dissatisfaction among the staff. The corporation was extremely concerned about the customers' perception of the railway services. Out of the total score of 100% for assessing the VPS, 28% were based on the satisfaction of the customers on the train services. In this connection, the corporation commissioned an independent consultant to conduct four customer opinion surveys each year, and the results were taken into account in assessing the payments under the VPS. All other performance targets were also quantifiable and measurable.

9. Mr Albert CHAN was of the view that the major incidents of KCRC were related to the performance of individual staff, and should be included in the performance targets for assessment of the payments made under the VPS. He was concerned that there was a decrease in profits for the KCRC in 2006 and yet the KCRC Managing Board had agreed to make the VPS payments. Mr CHAN opined that the KCRC Managing Board had failed to perform its duties in granting the VPS payments.

10. Mr Michael TIEN responded that the VPS payments were made based on a set of pre-determined objective performance targets agreed with the staff. The system was transparent and fair, and the payments were made after careful and objective assessment. Mr TIEN pointed out that the profits of the KCRC had been affected by the opening of new railway systems, which was a universal phenomenon to all railway operators. It would take time for a new railway system to build up its passenger volume. The profits of KCRC in 2006 had exceeded the 2005 level and met the target for the year. Mr Patrick PAUL, member of the KCRC Managing Board, said that the Managing Board had been careful in setting the performance targets for the VPS. Profit maximization was not the primary goal of the KCRC. In assessing the profit level of a company, one should make reference to the budget and in 2006, the KCRC had achieved its profit target. As far as the reputation of KCRC was concerned, the customer surveys had showed that the customers gave high gradings regarding the services provided by the corporation, including the attitude of the staff, railway service reliability and value for money. Given that the parameters of the VPS had not been violated, the Managing Board had to honour its undertaking under the system. Mr PAUL opined that the KCRC Managing Board had properly administered the VPS in an open and equitable manner. The KCRC was a world-class operation and it would be unfair to request the staff to return the extra payment from the VPS.

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11. With reference to performance target No. 8 "Delay per million passenger trips", and having noted that KCRC staff had performed above the 2006 target and yet below the actual outcome in 2005, Ms Miriam LAU was concerned about how the performance targets were set and whether they had been set at a low level so as to ensure the staff met the targets.

12. Mr Michael TIEN responded that the performance targets were set by the Strategic Human Resource Committee chaired by him, taking into account the performance of the corporation in the previous two years. The targets were then submitted to the Managing Board for endorsement. In order to encourage continuous improvement, the performance targets for the coming year were usually set higher than those of last year, but there was a limit on the extent of improvement to be achieved. The performance target for "Delay for million passenger trips" for 2006 was set at a level lower than the actual outcome in 2005 mainly because the testing of the railway signals for the new Lok Ma Chau Spur Line and the on-going improvement works at Hunghom station associated with the construction of the Kowloon Southern Link would unduly affect the performance of the East Rail.

13. Mr WONG Kwok-hing remarked that the public and the mass media had strongly criticized the KCRC in a number of major incidents in 2006 affecting the services of the railway. Yet the Managing Board considered that the management staff had met the performance targets and granted payments under the VPS. He asked whether the Managing Board and the Government considered that there was still room for improvement in the VPS, which did not seem to be effective enough in giving incentives to staff to perform better and imposing punitive measures on staff who had under-performed.

14. Mr Michael TIEN reiterated that when the VPS was introduced in 2005, the Managing Board considered that, in order to ensure the fairness of the system, criteria like the public's perception of the KCRC's image and the mass media's criticism should not be included as the performance targets in the scheme, as such criteria would not be quantifiable or measurable. Disciplinary actions would be taken against staff separately, in relation to individual incidents. It would be difficult, if not at all impossible, to gauge public opinion vis-à-vis the VPS for determination of the payments to be made for individual staff. If each and every adverse comment from the mass media were taken into consideration in the VPS, the staff concerned might not receive any payment under the scheme. Professor Richard WONG, member of the KCRC Managing Board, supplemented that the performance targets of the VPS were set after careful consideration, and appropriate weightings had been accorded to areas like customers' satisfaction. The performance of a railway system had to be assessed based on its overall operation and since a fair and objective system had been established in the VPS, the Managing Board had to honour its undertaking to its staff under the VPS, although the Managing Board would continue to review and further improve the system.

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15. The Chairman was concerned that whilst the KCRC had been operating on a prudent commercial principle, the arrangement for the VPS seemed to depart from such a principle as the staff still received payments under the VPS despite the drop in profit for KCRC in 2006. The setting of the performance targets and the questions in the public opinion surveys were also questionable. For instance, the "delay per million passenger trips" should be counted based on the length of time delayed rather than the number of delays, and the weighting for the performance targets on "train delays" should be more than 4%. The item "perception of train service reliability" was not included in the 2005 performance target and yet the 2006 report showed that the achievement in 2006 was above the 2005 actual outcome. In view of the many problems surrounding the VPS, the Chairman asked whether the KCRC and the Government would consider abandoning the VPS.

16. Mr Michael TIEN pointed out that the decrease in profit was not a result of under-performance by KCRC staff. Rather it was a result of the opening of new railways and the amortization of the railway systems. In fact the number of passengers using the railways had increased. Mr TIEN explained that although the item "perception of train service reliability" was not assessed as an independent item in the VPS scorecard in 2005, it was subsumed in another item as questions relating to train reliability were asked in the questionnaires for the public opinion surveys. Since the corporation considered that the item was essential in gauging the public's perception of the KCRC's services, the item was made a separate assessment item in 2006 constituting 7% of the overall score. Mr TIEN said that item No. 7 "Delays of 8 minutes or more" assessed customers' perception regarding long delays of train service, whereas item No. 8 "Delays per million passenger trips" assessed the frequency of train delays. The Managing Board reviewed the weightings of different items on the scoreboard on an annual basis and had made adjustments to the weightings where appropriate. PS/ETW supplemented that the VPS was introduced in 2005 and there was room for further improvement for the scheme. However, it might be premature to conclude that the VPS should be withdrawn. In fact, the VPS had a positive impact in encouraging staff to further improve their performance, based on a reward and punitive system.

17. Mr LAU Kong-wah opined that there was a conflict of interest situation as staff members affected by the VPS also sat on the Managing Board. There was much room for improvement in assigning the weightings for the various performance targets in the VPS scores system. For instance, the finance situation, namely the profits of the corporation, should not constitute 45% of the total scores as the corporation operated on a monopoly basis and its profits were guaranteed. Delays of train services, irrespective of the duration and seriousness of the delay, were counted on an incident basis. Mass media reports and comments were not taken into consideration in the VPS scores. Mr LAU was of the view that a review of the score system for the VPS should be conducted.

18. Mr Michael TIEN responded that the existing score system for the VPS was drawn up after careful consideration of the weightings for different performance targets. The overall weighting for public perception on KCRC's services was 48% which was higher than the weighting on the finance, namely the profit, of the corporation. The

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Managing Board would take into consideration Mr LAU's suggestions in future reviews of the scores for the VPS.

19. Mr LI Wing-tat said that public perception of the KCRC's services was of paramount importance in assessing the performance of the KCRC staff. Public opinion was that the performance targets for the VPS were not set objectively so as to adequately reflect the performance of KCRC's senior staff. Tracking surveys could be conducted on a quarterly basis to gauge the public's perception on the corporation's ability in handling major incidents and crises, and the image of KCRC, instead of relying on the mass media's reports and comments on the corporation's performance.

20. Mr Michael TIEN responded that 28% of the VPS scores were based on public surveys for assessing the public's perception of the KCRC services. The corporation would consider the suggestion of conducting tracking surveys, provided that the surveys were carried out based on objective and measurable assessment criteria.

21. Mr Albert CHAN reiterated that the score system for the VPS should take into account the major incidents which reflected the standard of duty performance of the senior staff in KCRC. Otherwise, the VPS should be cancelled.

22. Mr Michael TIEN responded that KCRC was extremely concerned about major incidents and had set up inquiry committees to investigate each and every incident. Where KCRC staff were found to have committed an error, disciplinary actions were taken against the staff concerned. Hence investigation and discipline procedures on major incidents were made separately from the VPS. The senior staff concerned might face double penalties if the VPS also took into account the impact of major incidents.

23. The Chairman requested that the Administration should provide a paper on the Government's stance on the need to review the performance targets under the VPS, and the relevant factors and criteria that would be taken into account when drawing up the new performance targets, before the two railway corporations were merged.

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II Measures to rationalize the utilization of Route 3 and the non-tolled Tuen Mun Road

(LC Paper No. CB(1)1521/06-07(02) - Information paper provided by the Administration)

24. With reference to paragraphs 5 and 6 of the paper, Mrs Selina CHOW enquired whether the Administration and the Route 3 (CPS) Company Limited could work out a pilot scheme on toll reduction for implementation before 1 July 2007 so that more realistic fundamental parameters and assumptions, e.g. traffic and financial projections, could be made for assessing the feasibility of extension of the franchise in exchange for toll reduction.

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25. The Deputy Secretary for Environment, Transport and Works (DS/ETW) responded that the Administration would attempt to work out a pilot scheme with the franchise company as soon as possible and would report the outcome of the discussion to the Panel.

26. Mr LAU Kong-wah was concerned whether the Government and the Route 3 (CPS) company limited could reach an agreement on extension of the franchise in exchange for toll reduction for a period of, say three years.

27. Mr Vincent FONG, General Manager of Route 3 (CPS) Company Limited responded that the company would actively pursue with the Government on measures to rationalize the utilization of Route 3 and the non-tolled Tuen Mun Road, taking into account the accumulated loss of \$700 million and an outstanding bank loan of \$1.9 billion borne by the company as at 31 July 2006. DS/ETW added that members' views would be taken into account in discussion with the franchise company on ways to achieve a balanced traffic distribution between Route 3 and the non-tolled Tuen Mun Road.

28. Mr Albert CHAN objected to the extension of the franchise for the Route 3 (CPS) Company Limited. He opined that it would be another form of transfer of interest. Instead, the Government should buy back the franchise from the company.

29. DS/ETW responded that the Government would take into consideration the key factors in drawing up any plan to rationalize the traffic flow between Route 3 and Tuen Mun Road. These included the impact of the plans on the Government's financial position and traffic situation, the "big market and small government" principle. Plans were in hand to improve Tuen Mun Road with a view to satisfying the traffic needs in North-west New Territories.

30. Ms Miriam LAU opined that there was a practical need to enhance the utilization of Route 3 in order to meet the transport needs in North-west New Territories. She requested that the Administration and the franchise company should attempt to implement the pilot scheme for toll reduction for three-years in exchange for an extension of the franchise period, on or before 1 July 2007.

31. DS/ETW reiterated that the Government and the franchise company were actively pursuing the issue and would report to the Panel in due course.

32. The Chairman requested that the Administration should –

(a) provide a progress update on discussions with the franchise company of Route 3 about possible ways to achieve a more balanced traffic distribution between Route 3 and the alternative, non-tolled Tuen Mun Road; and

(b) state Government's stance on the implementation of Route 10 (Northern

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Section) to satisfy the transport needs of the traveling public.

III Temporary retention of two supernumerary posts in the Transport Branch of the Environment, Transport and Works Bureau for a period of six months from 1 July 2007 to 31 December 2007, to follow through the implementation of the proposed rail merger

(LC Paper No. CB(1)1417/06-07(01) - Information paper provided by the Administration)

33. The Chairman noted that the captioned financial proposal sought to retain temporarily two supernumerary posts (the posts) of one Administrative Officer Staff Grade B (AOSGB) (D3) and one Administrative Officer Staff Grade C (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 in the Transport Branch (TB) of the Environment, Transport and Works Bureau (ETWB) for a period of six months from 1 July 2007 to 31 December 2007, to follow through the implementation of the proposed merger of MTR Corporation Limited and Kowloon-Canton Railway Corporation. Pointing out that DS(T)4, who represented the Government in attending this meeting to seek the Panel's support for the proposal, was directly related to the proposal, he asked whether DS(T)4 had to declare interests therefor. In response, DS(T)4 said that it was support for the post and not the individual that the Bureau was seeking. He also explained that given the present progress of the proposed rail merger, the posts would need to be extended to follow through the legislative process and the implementation of the merger. If however the merger exercise was completed earlier than 31 December 2007, the Administration would report to the Establishment Subcommittee (ESC) as soon as practicable and the posts would be proposed for deletion.

34. Mr Albert CHAN drew the Chairman's attention to the absence of a quorum at the juncture, and questioned whether discussion on the proposal should go on having regard that the Panel could not make a decision on the proposal without a quorum. The Chairman opined that in the circumstances, individual members could express their views on the proposal, and their views would be reported to the ESC as their personal views instead of the recommendation of the Panel as a whole. Mr CHAN, however, queried whether the proposal could be submitted to the ESC without the Panel's recommendation.

35. At the Chairman's invitation to advise, the Clerk explained that notwithstanding the present practice of consulting the relevant panels before important financial proposals were submitted to the Finance Committee or its two subcommittees, and that the chairmen of the relevant panels would normally report the panels' stances regarding such proposals at the relevant meetings of the above committees, the Administration's decisions to submit the proposals to these committees were not bound by the decisions of the relevant panels. The Chairman added that the Administration could choose to submit a financial proposal to the committees even though the relevant panel did not

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support it.

36. Continuing discussion on the proposal, Mr LAU Kong-wah indicated support for the proposal. He however also pointed out that in justifying for the creation of the posts, it had been claimed that as all the other Deputy Secretaries and Principal Assistant Secretaries of ETWB were fully engaged in their own schedules of duties, it was operationally not possible for them to take up the tasks to be performed by the posts without adversely affecting the discharge of their current duties. He was therefore disappointed to observe that, notwithstanding creation of the posts, the other Deputy Secretaries and Principal Assistant Secretaries had not been able to perform their tasks satisfactorily. The problem with Route 3 highlighted above was a case in point. He also found room for improvement in DS(T)4's performance, pointing out that DS(T)4 had not been able to anticipate that discussion on the integrated Operating Agreement would take a long time. Nor could he respond to the requests and concerns raised by the Bills Committee on Rail Merger Bill (the BC) in a timely and appropriate manner at all times. In particular, Mr LAU was dissatisfied with DS(T)4's claim as he perceived that the BC had not been progressing as it should, and urged DS(T)4 to make improvements. In response, DS(T)4 clarified that the Administration had made no claims that the BC was delaying the scrutiny of the Bill. The Administration had also been doing its best to positively take the BC's requests forward wherever practicable.

37. Ms Miriam LAU expressed support for the rail merger and, highlighting the urgency of the BC's work, stressed the need to retain the posts to obviate any personnel change that might affect the smooth progress of the work. She therefore stated support for the proposal, and indicated hope that with greater efforts from members, the rail merger could be effected early.

38. Ir Dr Raymond HO also stated support for the proposal having regard that the rail merger had yet to be effected, and the posts were required to oversee the completion of the merger process.

39. Mr Albert CHAN, however, pointed out that as public money was involved, if the holders of the posts were not performing as they should, the proposal should not be supported. He also pointed out that it was a rare move to create two posts specifically for taking forward a bill. Moreover, with the major bulk of the work relating to the Bill already completed, he did not see a need to retain the posts. He therefore stated his opposition to the proposal.

40. The Chairman agreed with Mr Albert CHAN that it was rare that posts were created for taking forward a bill. He also concurred with Mr LAU Kong-wah that DS(T)4's performance in providing timely and adequate response to the BC's requests and concerns had yet to convince him of the need for the posts. He doubted that, with the BC agreeing to attempt to complete deliberation of the Bill within the next few weeks with a view to reporting to the House Committee on 25 May 2007 for resumption of the Second Reading debate on the Bill on 6 June 2007, there might not be a need to retain the posts till the end of 2007. In his view, the relevant follow-up work could be

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absorbed by the original establishment of ETWB. In response to the Chairman's call to note members' comments on his performance made at this meeting, DS(T)4 explained that he had to perform in accordance with the requirement of the post. He understood that members might be disappointed in case where the Administration could not satisfy some of their requests, and he believed their comments were not directed at his personal performance. He also assured members that he would continue to focus on taking forward the rail merger effectively.

41. Noting that there was subsequently a quorum, the Chairman summed up the above discussion by pointing out that of the five members then present, three supported the proposal, and instructed the Clerk to report to the ESC accordingly.

IV Any other business

42. There being no other business, the meeting ended at 11:05 am.

Council Business Division 1
Legislative Council Secretariat
17 July 2007