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Our Ref.: () in TF/3

Your Ref.:

10 November 1999

Mrs Constance Li
Clerk to Bills Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Hong Kong

Dear Mrs Li

**Bills Committee on
Provision of Municipal Services (Reorganization) Bill
Follow up to meeting on 26 October 1999**

Thank you for your letter of 27 October 1999 conveying Members' request for further information on the new framework for delivering municipal services. Our response is set out below.

(a) *table showing the deployment of Directorate posts*

A table showing the existing and the proposed establishment of directorate posts in the new structure is at **Enclosure 1**. It is not possible to show how each directorate post will be redeployed because the existing structure is organized on a regional basis, while the new one will be organised on a functional basis.

(b) *breakdown of the 27388 under the existing establishment in USD, RSD, AFD, HAB, DH and the other bureaux concerned for the provision of municipal services*

The relevant breakdown is set out in **Enclosure 2**.

- (c) *the estimated savings for leisure and cultural services out of the total savings of \$699.8 million under the new framework*

We estimate that of the total savings of \$699.8 million, about \$395 million (or 56%) is attributable to leisure and culture services.

- (d) *breakdown of the savings under “Other Charges” and “Other streamlining/enhanced productivity initiatives” and whether any of these savings can be achieved even without re-organisation*

A breakdown of the savings under “Other Charges” and “Other streamlining/enhanced productivity initiatives” is set out in **Enclosure 3**. As we stated at the Bills Committee meeting on 26 October, we arrived at the estimated total recurrent savings of about \$700 million by comparing the proposed full-year budget of the new structure with the estimated expenditure of the two municipal councils for 1999-2000.

- (e) *proposed establishment and expenditure for secretarial support to the new advisory bodies, Liquor Licensing Board and Municipal Services Appeal Board*

A Principal Assistant Secretary in the Environment and Food Bureau will serve as secretary to the proposed Advisory Council on Food and Environmental Hygiene as part of his overall schedule of work. The same arrangement will be adopted in the Home Affairs Bureau in servicing the Culture and Heritage Commission. As regards the Liquor Licensing Board, the future Food and Environmental Hygiene Department will adopt the same system as that of the two Provisional Municipal Councils. A secretariat headed by a Senior Executive Officer and reporting to

an Assistant Director will service the Board's meetings. Staff at the district offices of FEHD will continue to process licence applications and prepare cases for the Board's deliberations. The Senior Superintendent in charge of the district office will supervise this work.

The Municipal Services Appeal Board will continue to be serviced by staff in the Director of Administration's Office.

- (f) *forecast expenditure of the new structure in the next two or three years*

As the Deputy Secretary for the Treasury explained at the meeting on 26 October, we do not have sufficient information to conduct an expenditure forecast in the medium term. Such expenditure will be subject to scrutiny by LegCo in the context of the annual Appropriation Bill. Please refer to paragraphs 5 and 6 of **Enclosure 3**.

- (g) *progress report of the HAB Task Force's deliberation/implementation of the Consultancy Study on Culture, the Arts, Recreation and Sports Services*

A progress report is at **Enclosure 4**.

As regards the comments of members of the Provisional Municipal Councils on the new structure (paper no. CB(2)299/99-00(03)) tabled at the Bills Committee meeting of 5 November, our response is set out in **Enclosure 5**.

Yours sincerely,

(John C Y Leung)
for Secretary for Constitutional Affairs

bcc SHA (Attn: Mr Peter Cheung)
S for Tsy (Attn: Mrs Elaine Tang)
SCS (Attn: Ms Alice Cheung)
DUS (Attn: Mrs Rita Lau)
DRS (Attn: Mrs Helen Yu)

Internal

H/TF

DH/TF

AH(3)

SAO(TF)

**Establishment of
Directorate Posts**

Department/Bureau		Existi ng		Propo sed	
USD	D6	1		0	
	D3	4		0	
	D2	13	20	0	0
	DL2	1		0	
	D1	1		0	
RSD	D6	1		0	
	D3	2		0	
	D2	7	13	0	0
	DL2	1		0	
	D1	2		0	
FEHD	D6	0		1	
	D3	0	0	3	14
	D2	0		8	
	D1	0		2	
LCSD	D6	0		1	
	D3	0	0	3	12
	D2	0		8	
DH	D2	1	1	0	0
DoJ	DL2	0	0	1	1
HAB	D2	0	0	1	1
PELB	D3	1	4	0	0
	D2	3		0	
ESB	D2	1	1	0	0
HWB	D2	1	1 ^{super.} post	0	0
EFB	D8	0		1	

	D4	0		1	
	D3	0	0	1	10
	D2	0		6	
	D1	0		1	
<i>Total</i>		40		38	

**Existing Establishment Baseline
for Provision of Municipal Services**

Bureau / Department	No. of Posts
Urban Services Department	15,407
Regional Services Department	11,508
Department of Health *	311
Agriculture and Fisheries Department *	89
Home Affairs Bureau *	39
Economic Services Bureau *	3
Health and Welfare Bureau *	3
Planning, Environment and Lands Bureau *	20
Television and Entertainment Licensing Authority *	8
Total	27,388

Note : * The establishment figures refer to the staffing for municipal services .

Purpose

This note provides further information as requested by the Bills Committee on -

- (1) estimated savings attributable to leisure and culture services out of the total savings of \$699.8 million under the new framework;
- (2) a breakdown of the savings under “Other Charges” and “Other streamlining/ enhanced productivity initiatives” and an indication of whether any of these savings can be achieved even without re-organisation; and
- (3) forecast expenditure of the new structure in the next two to three years.

General Comments

2. Before addressing the Committee’s specific questions, we would like to reiterate a few general points about the financial implications of the re-organisation -

- (a) one of the objectives of the re-organisation of municipal services is to enhance accountability and cost-effectiveness in the delivery of these services. It is not driven by cost-cutting as we are fully aware of the need to adequately resource the new framework in providing improved services to the community;
- (b) we have never claimed that the estimated total savings of about \$700 million in recurrent expenditure of the new framework arising from the re-organisation is the direct result of the dissolution of the two Provisional Municipal Councils. As mentioned in the paper for the Bills Committee, the savings include those direct expenses incurred by the Councils as well as efficiency gains from streamlining and economies of scale; and

- (c) the Councils are now financially autonomous bodies funded directly from a share of Rates whereas the new framework will become vote-funded through appropriation by the Legislative Council. The usual control and accountability over Government expenditure will apply to the new framework, including scrutiny by LegCo of the annual expenditure Estimates.

Specific Response

Savings from Leisure and Culture Services

3. Out of the total estimated annual savings of \$699.8 million under the new framework, we estimate that about \$395 million (or 56%) is attributable to leisure and culture services. A breakdown is at Annex A. However, it should be noted that this is worked out based on certain assumptions about the respective share of spending on leisure and culture in the current budget of USD and RSD, especially with regard to common spending items such as administrative expenses, publicity, supplies and contingency.

Savings in “Other Charges” and from Productivity Enhancement

4. A detailed breakdown of the estimated savings under “Other Charges” and “other streamlining/enhanced productivity initiatives” is at Annex B and Annex C respectively. With the exception of direct expenses incurred by the Councils (that is, remuneration of Members and secretariat expenses), it is difficult to ascertain categorically whether the same amount of savings could be obtained under the present structure. That said, we have identified the following items which we believe can possibly be achieved without re-organisation -

- (a) \$16 million from vehicle maintenance - it is expected that this amount can be saved through putting the vehicle maintenance and repair services now provided by the Electrical and Mechanical Services Trading Fund to competitive tendering. and

- (b) \$73.7 million from enhanced productivity - this amount is to be achieved from measures like streamlining of procedures, more efficient use of funds for organising activities and economising on the use of energy.

Forecast Expenditure

5. As and when the operation of municipal services is to be financed directly from the General Revenue Account, we will subject its additional requirements to the usual and vigorous scrutiny in the baseline exercise. We will only provide additional recurrent expenditure to meet earmarked growth while funding for new initiatives will have to be sought in the annual resource allocation exercise. For the year 2000-01, based on existing commitments, we estimate that the new institutions will require a total earmarked growth of about \$365 million, thereby increasing its total recurrent expenditure from \$9,898.3 million to \$10,263.3 million, if staff costs are to be expressed in notional annual salaries at mid-point. The earmarked growth is largely to cater for -

- (a) the full year effect of new initiatives introduced or new facilities commissioned in 1999-2000, such as enhancement of hawker control in Tseung Kwan O, enhancement of swimming pool safety, provision of a hawker control team for Tung Chung, provision of Internet information services in libraries and the opening of Yuen Long Theatre, new recreation grounds, etc; and
- (b) the recurrent consequences of projects to be commissioned in 2000-01 such as the Museum of History, Hong Kong Film Archive, Hong Kong Heritage Museum, Hong Kong Central Library, new playgrounds, etc.,.

It should be noted that the above expenditure has to be incurred regardless of the delivery framework or the funding arrangement. These figures are only provisional at this stage. We may have to refine these in the preparation of the 2000-01 Draft Estimates. We wish to point out that expenditure for

municipal services after the re-organisation will be subject to scrutiny by the Legislative Council in the context of the annual Appropriation Bill.

6. We do not have sufficient information to conduct an expenditure forecast of municipal services for the medium term. In terms of planning, we will continue to provide additional expenditure to meet earmarked growth in municipal services. On the other hand, we will subject this area of spending to the same savings targets under the Enhanced Productivity Programme up to 2002-03.

Finance Bureau
November 1999

**Breakdown of Savings Attributable to
Leisure and Culture Services**

\$ Million

Staff Cost	171.6
Provisional Municipal Council (PMC) Secretariat expenses	12
PMC Members' remuneration	32.5
Other Charges	7.4
Other Streamlining/Enhanced Productivity Initiatives	177.1
Less: Additional Expenditure Required by Home Affairs Bureau	(5.2)
Total:	395.4

Annex B**Breakdown of Savings under “Other Charges”**

	\$ Million
Provisional Urban Council’s Provision for Additional Commitments *	65.4
Vehicle Maintenance	16.0
Publicity	12.0
Rental	5.0
Provisional Regional Council Festival	6.6
Provisional Regional Council Annual Report	0.8
Others	6.1
Less: “Other Charges” Provision for Food and Environment Bureau and Home Affairs Bureau	(8.5)
Total:	103.4

* The Provisional Urban Council has established a subhead of “Additional Commitment” to serve as a contingency vote to meet expenditure which cannot, at the time of preparation of the estimates, be determined with precision and specifically allocated. With cash-limited funding under GRA, this contingency vote will not be required in the estimates of the new bureau and departments.

**Breakdown of Savings under
“Other Streamlining/Enhanced Productivity Initiatives”**

	\$ Million
Provisional Urban Council's Provision for Additional Commitments	103.4
Electricity, Gas and Other Charges*	17.9
Hire of Services and Professional Fees*	14.5
Cultural Presentations and Entertainment Programmes*	14.2
Specialist Supplies and Equipment*	4.2
Sound Control Services*	3.0
Stores and Equipment*	2.5
Publicity, Advertising and Printing*	4.8
Others*	12.6
Total	177.1

* These are savings resulting from measures taken by the Regional Services Department and Urban Services Department to improve efficiency and cost-effectiveness. The measures include streamlining of procedures, more efficient use of funds for organising activities, and economising on the use of energy.

**Progress Report of the HAB Task Force's Deliberation/Implementation of the
Consultancy Study on Culture, the Arts, Recreation and Sports Services**

Consultant's Main Recommendations	Progress Report
<p>1. <i>A New Department</i></p> <p>A new Department should be set up from 1 January 2000 to take up the Provisional Municipal Councils' duties in respect of the arts and culture, sports and recreation.</p>	<p>A new department, to be entitled Leisure and Cultural Services Department, will be established taking over from the two Municipal Services Departments the service functions for the culture, the arts, recreation and sports. Incorporated into the new department will be the Antiquities and Monuments Office from Home Affairs Bureau and the Book Registration Office from the Television and Entertainment Authority. As a transitional measure, the department will also accommodate the three performing companies now under the Provisional Urban Council and the Music Office pending their corporatisation or transfer. The department will require a total establishment of 9,554 posts which represents a reduction of 492 posts over the existing level. Details of the proposed organizational structure of the new department and the savings derived from the reorganization are contained in the information paper submitted for the Bills Committee meeting on 26 October 1999.</p> <p>2. On a need basis, the new department will maintain a system of Advisory Committees to have input from the relevant profession or trade and to keep in touch with the community and the users. These Committees will be subject specific and will be serviced by the department.</p>

<p>2. Culture and Heritage Commission</p> <p>A high-level non-statutory Culture and Heritage Commission should be set up to advise the Government on cultural policies and funding priorities for culture and the arts, and the broad funding allocation to the major culture and arts organizations.</p>	<p>We shall have a high-powered non-executive Culture and Heritage Commission of 17 members, including two officials. The Commission will coordinate, but not direct, the work of statutory bodies such as the Arts Development Council, the Academy for Performing Arts, the Arts Centre and the Antiquities and Monument Board, which will have ex-officio representation on the Commission. The Commission is expected to take a broad view and advise Government on the setting of objectives and the application of resources, in support of cultural development and preservation of heritage in Hong Kong.</p>
<p>3. The Arts Development Council (ADC)</p> <p>The ADC membership should be expanded to a maximum of 27 members from 1 January 2000 and the system for nomination/ election of art group representatives should be reviewed to broaden the electorate base.</p>	<p>Improvements have been made to its nomination system to overcome impediments to the Council's operations caused by the dominance of sectoral interests. Funding procedures have been revamped, leaving artistic judgement to people in the relevant fields, in answer to requests from the arts community. A bill has been introduced into LegCo to expand the Council's membership. These measures apart, the charter of the Arts Development Council will remain intact, which means that it will continue to be the principal funding agency on arts, exercising discretion as at the present.</p>

<p>4. Sports and Recreation</p> <p>The membership of the Hong Kong Sports Development Board (SDB) should be expanded to a maximum of 17 to bring in more members from the professional and business communities and the Administration should discuss with SDB to remove areas of overlapping and delineate respective responsibilities clearly.</p>	<p>The new department will have resources to serve as a coordinator and a support base, especially for sports at the community level. We would place on it the responsibility of promoting Sports for Recreation, networking with the National Sports Associations, District Councils, district sports and recreation bodies, schools and youth sports bodies etc. We expect an increase of programmes and services to the community at large as a result. At the upper level, the Sports Development Council, while being the Administration's principal advisor on policy and strategic planning, will have the focus of its own programmes on Sports for Excellence, including elitist training at the Sports Institute. The Sports Federation and Olympic Committee, which is independent of Government, will represent Hong Kong on the International Olympic Committee and, together with its member National Sports Associations, continue to be the guardians and promoters of professional standards.</p> <p>2. A bill has been introduced into LegCo to expand the membership of the Sports Development Council and to provide the Sports Federation and Olympic Committee with an additional ex-officio seat.</p>
<p>5. New Initiatives</p> <p>More private sector initiatives should be introduced to expand and speed up the scope and pace of contracting out of leisure and cultural services.</p>	<p>The Task Force is working out a basic framework whereby possibilities will be identified and examined according to a set of agreed criteria. A gradual programme spearheaded by a couple of pilot schemes will be proposed. At the moment we are contemplating, for the first year, the contracting out of the management of one Indoor Recreation Centre, the commercialization of the Urbtix ticketing service and the corporatisation of the three performing companies now run by the Urban Council.</p>

Home Affairs Bureau,
October 1999

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