

財經事務及庫務局
(庫務科)

香港下亞厘畢道
中區政府合署



FINANCIAL SERVICES AND
THE TREASURY BUREAU
(The Treasury Branch)

Central Government Offices,
Lower Albert Road,
Hong Kong

傳真號碼 Fax No. : 2596 0729
電話號碼 Tel. No. : 2810 2283
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17 June 2003

Ms Miranda Hon
Clerk to Public Accounts Committee
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Ms Hon,

**The Director of Audit's Report on the
Results of Value for Money Audits (Report No. 40)**

**Chapter 5: Subvention for Staff Emoluments
of the Legislative Council Commission (LCC)**

Thank you for your letters of 6 and 10 June 2003. The information requested by the Public Accounts Committee is set out below.

--- 2. Annex A shows for each of the five subvented organisations the amount of its **reserve** at the end of the 2002-03 financial year and the percentage of this reserve to the subvention for 2003-04.

3. On **cash allowance** we had not detected that the Legislative Council Secretariat (LCS) had not adjusted its funding request to take into account changes in the rates for cash allowance (CARs) during 1994-95 to 2002-03 and the reduction in requirement as some staff chose not to receive cash allowance. This is mainly because the established funding arrangement for the Legislative Council Commission (LCC) does not envisage the adjustment of government funding to reflect the LCC's actual expenditure on cash allowance.

4. In my 29 May reply to your letter of 15 May, we have already explained the concept and method of the one-line vote (OLV) funding arrangement for the LCC. To recapitulate the main points –

- (i) OLV is given with only one line, which by definition means it is not broken down into components of expenditure such as cash allowance. In adopting the OLV method, both LCC and the Administration were conscious that LCC had the autonomy and flexibility in deploying funds in the OLV among expenditure components, and was not subject to the Administration's control at the level of expenditure components; and
 - (ii) Under the OLV arrangement we will not increase funding if LCC spends in excess of government funding, whether in aggregate or in respect of particular expenditure components such as cash allowance, and will not claw back funding if LCC spends less, except under some specified circumstances such as civil service pay adjustment. Accordingly we did not provide addition subvention to the LCC when the CARS rates were revised upwards, nor reduced the subvention when the rates were decreased.
5. The following considerations may also be relevant -
- (i) An LCS staff's cash allowances is calculated by multiplying his mid-point salary by the CAR for his category, and the amount of cash allowance is fixed throughout the contract period, which is usually three years. Take 2002-03 as an example, the changes in CARs for Category I, II and III staff were -3.76%, -1.8% and +0.03% respectively. Assuming one third of the LCS staff had their contracts renewed or were replaced by new recruits, the resultant savings would be \$0.746 million, which amounts to only 0.3% of the 2002-03 approved estimates of the LegCo Secretariat (\$246.55 million);
 - (ii) If we were to reduce such savings from the LCC's funding, the Government would have to keep track of LCC's contract renewals or recruitment of new staff as and when they happen. That would not be an OLV method, and would involve the Government's detailed monitoring of the LCC's contracts with staff;
 - (iii) According to LCC, some of their staff have chosen not to receive cash allowance out of compliance with the "prevention of double benefits" rule. But such personal situation of each staff is not static and as his situation changes, e.g. in his marital status or the employment of his spouse, he may become eligible for the allowance. Conversely a staff who has been claiming the allowance may become ineligible for similar reasons. If we were to adjust our funding to LCC to reflect such changes in the personal situation of each staff, the Government would again have to engage in detailed monitoring of the LCC over such matters; and
 - (iv) To be consistent we would need to extend such detailed monitoring by the Government over other types of staffing and expenditure matters of the LCC, so that funding to LCC can be adjusted in accordance with actual expenditure on these other expenditure components. This

however would defeat the purpose of having an OLV funding for the LCC.

6. On the calculation of funding requirement of **contract gratuities** in respect of the new posts supported during 1996-97 to 1998-99 and in respect of posts not filled by contract staff during April 1994 to April 1995, we have no records of discussion with LCS on these issues. This again is because of the OLV concept and method explained above. In the case of contract gratuities, the agreed method for determining the funding for contract gratuities for inclusion into the OLV was the "three-year funding cycle" method explained in Annex B. This represents a broadbrush approach, using projected establishment as the basis for projecting the funding to be included for contract gratuities.

7. Allocation under Resource Allocation Exercise (RAE) is a separate funding process. The allocation provided under RAE represents the resources supported for providing additional services or enhancing existing ones. In line with our general practice, for successful bids for resources from the LCC, we use the full-year salary, cash allowance and 100% of the year's contract gratuity as a reference to calculate the resources required for supporting the new services or improved services. Upon RAE allocation, the LCC is free to deploy the resources supported in the most economical way as it sees fit so long as the services are provided as specified in the resource bid.

--- 8. As shown in Annex B, according to the "three-year funding cycle" method –

- the provisions for contract gratuity for 1994-95 and 1995-96 were 15% respectively of the projected yearly contract gratuities of the estimated staff establishment of 280 for 1994-95.
- in addition to this 15% mentioned above, a provision of 255% of the projected contract gratuities of the estimated staff establishment of 286 for 1995-96 (the latest establishment estimate available when preparing the 1996-97 baseline in May 1995) was added to the subvention.

Under this method and for similar reasons given in the above discussion on the matter of cash allowance, there was no need to adjust the funding for gratuities to the LCC to reflect changes in actual requirement such as whether contract staff have replaced civil servants seconded to the LCC or whether there were vacant posts during 1994-95.

Yours sincerely,



(Stanley Ying)

for Secretary for Financial Services and the Treasury

Encl.

Annex A

Subvented body	Amount of Reserve at the end of 2002-03 (\$) (a)	Total of recurrent subvention for 2003-04 (\$) (b)	Percentage of reserve to government subvention (a) / (b)
Office of The Ombudsman	52,964,000	93,369,000	57%
Consumer Council	424	66,189,000	0%
Hong Kong Trade Development Council*	1,172,610,000	368,240,000	318%
Equal Opportunities Commission	11,210,000	77,964,000	14%
Office of the Privacy Commissioner for Personal Data	0	38,387,000	0%

* For the Trade Development Council, please note that government subvention in 2002-03 amounts to only about 24% of the HKTDC's total budget in that year. The percentage of subvention as against HKTDC's total gross expenditure has been on the decrease especially over the past decade or so, from over 40% before 1998-99 to around 24% in recent years, with the rest of the expenditure covered by HKTDC's self-generated income.

Annex B

Year of Estimates	Basis of calculation of contract gratuities provision in the subvention
1994-95	15% of projected yearly contract gratuity of 280 staff (projected establishment for 94-95)
1995-96	15% of projected yearly contract gratuity of 280 staff (projected establishment for 94-95)
1996-97	15% of projected yearly contract gratuity of 280 staff (projected establishment for 94-95) plus 255% of projected yearly contract gratuity of 286 staff (projected establishment for 95-96)
1997-98	15% of projected yearly contract gratuity of 280 staff (projected establishment for 94-95)
1998-99	15% of projected yearly contract gratuity of 280 staff (projected establishment for 94-95)
1999-2000	15% of projected yearly contract gratuity of 280 staff (projected establishment for 94-95) plus 255% of projected yearly contract gratuity of 321 staff (projected establishment for 98-99)