財經事務及庫務局
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25 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)**

I refer to your letter of 21 June 2003 and apologise for having missed your deadline.

2. The additional information required by the Public Accounts Committee is set out in the Annex.

Yours sincerely,

( Stanley Ying )
for Secretary for Financial Services and the Treasury

We note that many of the questions raised in the letter under reference (LUR) hinge on the basic questions of whether the One-Line Vote (OLV) funding arrangement is appropriate for the LCC, and whether other funding arrangements will better comply with relevant provisions in the LCC Ordinance providing for the LCC's autonomy in areas including financial and managerial matters. In previous correspondence we have elaborated on the concept and methods of the OLV as applied to the LCC. The following information avoids repeating such earlier correspondence save where it is necessary.

**Basic control in the One-Line Vote (OLV) funding arrangement**

(a) Under the Exchange of Letters (EOL) between LCC and the Government, the Secretary General (SG) prepares LCC's annual draft estimates of expenditure for inclusion in the Government's draft annual Estimates of Expenditure. For the purpose of these estimates, since under *Head 112 Legislative Council Commission* the relevant subhead (previously *Subhead 367 Salaries and allowances for staff and general expenses*, and in the 2003-04 Estimates *Subhead 000 Operational Expenses*) is not broken down into components such as salaries or cash allowance, strictly speaking there is no need for LCC to supply such breakdown to the Government. There is no express requirement for such information in the EOL. In practice, however, LCC provides the Government with its own budgets for information, which is broken down into components.

(i) As explained previously, under the agreed funding method LCC is not subject to the Government's financial control at the level of expenditure components. Therefore we do not seek and use information on LCC's finances (eg., in its own budget, or in its annual accounts tabled at LegCo) **for the purpose of** preventing "over-provision" to LCC's individual expenditure components. But we do use LCC's financial information in other contexts, eg., the baseline-plus exercise, or the Resource Allocation Exercise (RAE) if LCC bids for new resources.

(ii) If appropriate our information on LCC's financial position may be relevant when, e.g., we process LCC's RAE bids. In the past years the Government has decided not to fund some of LCC's bids, or fund only partially some other bids. As for the scenario of the funding arrangement for LCC getting out of control, we envisage that with the information we maintain on LCC's finances we would not allow such a situation to happen, and would definitely take pre-emptive actions where necessary after discussion with LCC. We also envisage that for its part LCC would exercise its statutory autonomy responsibly so that situation would not get out of hand. Conversely, we do not think it is necessary for the Government to maintain component-by-component control over LCC in order to prevent such a scenario.

**Subvention for cash allowance**

(b) FSTB's memo of 30 March 2001 to LCC was basically to advise LCC of the reduced cash allowance rates (CARS). The memo did also mention that LCC's baseline would be adjusted in the light of actual savings achieved. In the event we did not make such adjustments, as we subsequently noted that there was no basis for such adjustment under the agreed arrangement with LCC.

(c) On the question of whether the Government has "over-provided" LCC for cash allowance, we have explained the analysis from the perspectives of LCC's statutory provisions and the OLV arrangement (please see FSTB's letters of 29 May and 17 June). The figures listed in (c), LUR, would be "over-provisions" if LCC had been funded not under OLV but under the line-by-line control or deficiency funding methods. Under these other methods there is in general an arrangement for the Government to claw back over-provisions and top up under-provisions. Given such possible fluctuations in demand on Government funding, the Government often imposes control over expenditure components.

(d) It is correct that we do not provide additional subvention to LCC when the CARS are revised upwards, nor reduce subvention when the CARS decrease. Clause 3.2 of the EOL is a general provision enabling the SG to request extra funding from the Government if he feels such extra funding is required, during the course of a financial year, to meet extra costs in connection with a limited list of items, including "salaries and allowances".

In the specific case of cash allowance, over the years SG has not found that such extra funding is required as a result of increases in CARS, and has not requested extra funding. It has also been the agreed practice between LCC and the Government that LCC will not request extra funds for cash allowance on account of increases in CARS, considering among other things that an increase in CARS will not immediately increase LCC's cost on cash allowance given that cash allowance is fixed by amount during the duration of a contract.

(e) We have not verified the figures. But it is a fact that \$4.8mn is more significant than \$0.746mn.

**Subvention for contract gratuities for new posts and posts not filled by contract staff**

(f) We have addressed the question in previous correspondence. To recapitulate, both the '3-year funding cycle" and 'Pay-as-you-go' method represent a broadbrush approach agreed between the Administration and the LCC in arriving at the projection of the required provision. We consider that adjusting the funding for contract gratuities to reflect the actual requirement would be inconsistent with the OLV arrangement. If we compare the actual expenditure of LCC with the subvention of a specific component and claw back underspending, it could be argued that we should also provide additional funds in case the actual expenditure on a component is larger than the level included for the component in the block grant. It would defeat the purpose of the OLV for the organisation to flexibly redeploy resources between components of expenditure. The information in (c) above is also relevant.