

ITEM FOR ESTABLISHMENT SUBCOMMITTEE OF FINANCE COMMITTEE

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

Subhead 000 Operational expenses

Members are invited to recommend to the Finance Committee the creation of the following two supernumerary posts in the Environment, Transport and Works Bureau with effect from 1 July 2004 for a period of two years –

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

1 Administrative Officer Staff Grade C
(D2) (\$113,520 - \$120,553)

PROBLEM

The existing directorate support in the Environment, Transport and Works Bureau (ETWB) is not adequate to cope with the additional workload arising from a possible merger of the MTR Corporation Limited (MTRCL) and Kowloon-Canton Railway Corporation (KCRC).

PROPOSAL

2. The Secretary for the Environment, Transport and Works (SETW) proposes that the following posts be created for a period of two years with effect from 1 July 2004 –

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- (a) one supernumerary post of Administrative Officer Staff Grade B (AOSGB) (D3), designated as Deputy Secretary for the Environment, Transport and Works (Transport)4 (DS(T)4); and
- (b) one supernumerary post of Administrative Officer Staff Grade C (AOSGC) (D2), designated as Principal Assistant Secretary for the Environment, Transport and Works (Transport) Special Duties (PAS(T)SD),

to cope with the additional work arising from the possible MTRCL/KCRC merger.

JUSTIFICATION

3. At the meeting of the Executive Council on 24 February 2004, the Council advised and the Chief Executive ordered that the MTRCL and KCRC should be invited to commence negotiations on a possible merger based on a set of parameters defined by the Government. The two railway corporations were asked to report the outcome of their negotiations on or before 31 August 2004. Having regard to the outcome of the negotiations, the Government would then decide on the way forward.

4. There is a huge amount of work to be done by August 2004. We have set up a merger management committee with the two corporations to monitor the programme and facilitate the negotiations, and to ensure that the parameters set by the Government are adequately addressed in the negotiations. A merger steering committee has also been set up between the Government and KCRC for the Government, as the sole shareholder of KCRC, to give steer to KCRC in its negotiations. Against this background, one supernumerary post of AOSGB (D3) has been created in the ETWB under delegated authority from Finance Committee (FC) with effect from 29 February 2004 to help oversee the operation of the merger steering committee and the merger management committee; to monitor the progress of the negotiations and follow up on matters that may require the Government's input/actions to facilitate the negotiations; to provide policy guidance on a whole range of merger-related transport issues arising from the negotiations; to maintain liaison with major stakeholders as well as to work hand in hand with the Financial Services and the Treasury Bureau (FSTB) on the valuation and financial aspects of the possible merger and the management of Government's consultant(s) for the merger exercise.

5. The negotiations between the two railway corporations cover a wide range of issues including, for example, review of fare structure, development of

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proposal for a more objective and transparent fare adjustment formula, resolution of interchange arrangements for railway projects under planning, development of safeguards and measures to deal with service disruption, preparation of the framework of an integrated Operating Agreement (OA), assessment of the management and organisational structure of the merged corporation, handling of human resource matters, development of proposal concerning the transaction structure, identification of areas for synergy, development and evaluation of business plan for the merged corporation, and preparation of written undertakings and related documents. The negotiations are expected to reach a critical stage towards July 2004. There will be increasing demand for policy guidance at Bureau level and ETWB will be actively involved in intensive discussions with the two corporations to examine in detail the policy issues arising therefrom to facilitate the timely conclusion of the negotiations within the parameters set by the Government. With these considerations, it is necessary to strengthen our directorate support by setting up a dedicated team comprising two directorate officers at AOSGB (D3) and AOSGC (D2) levels, to be designated as DS(T)4 and PAS(T)SD respectively, with effect from 1 July 2004. Taking into account the complexity of and the procedures required for the merger exercise, we propose that the posts be created for a period of two years within which the implementation of the merger is expected to complete.

6. While the supernumerary DS(T)4 post is committed to the work schedule as mentioned in paragraph 4 above, the additional PAS(T)SD post is required from July 2004 for reasons explained below. During the period between July and end August 2004 when the two corporations finalise their discussions on proposals for the wide range of issues to be examined in the merger negotiations, PAS(T)SD will be required to co-ordinate with the various government bureaux and departments in examining the policy implications and possible impact of the various ideas and proposals being explored by the corporations. The officer will also be required to co-ordinate with the FSTB in the Government's discussion with MTRCL on the preliminary transaction terms including the financial terms for the merger. In some cases, for example the drafting of the key terms of the draft integrated OA in respect of contingency plan for service disruption, direct involvement of relevant government departments is required. Different proposals or options have different financial, economic and operational implications. It is important that ETWB should assess the proposals carefully and provide its input to the corporations to enable them to take a considered view when they firm up their proposals for inclusion in the report to be submitted to the Administration by end August 2004. It would be an intensive and interactive process which requires the full attention of the two directorate officers.

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7. After the two corporations have submitted the outcome of their negotiations to the Government by end August 2004, DS(T)4 and PAS(T)SD will need to examine in detail the outcome of the negotiations in its totality from the overall policy perspective. They would prepare the Administration's recommendation to the Executive Council, having regard to all relevant factors and views expressed by stakeholders and the general public on the subject. PAS(T)SD will be responsible for co-ordinating with all relevant government bureaux and departments and stakeholders under the policy guidance of DS(T)4. These tasks would be carried out under a very tight time schedule because the deliberation process should be completed as soon as possible to minimise the period of uncertainty before a decision on the merger is made. Upon a decision by the Government to proceed with the merger, the officers would then proceed with full speed with the preparation of Drafting Instructions and the legislative process and the preparation of the detailed OA. To ensure proper regulation of the merged entity, it is essential to have in place a carefully drafted piece of legislation which sets out clearly the rights and obligations of the merged corporation and an integrated OA which sets out clearly the quality and safety requirements for the services to be provided as well as the details of the fare adjustment mechanism. Besides, proper safeguards and precautionary measures will need to be incorporated into the OA or the governing legislation of the merged corporation to provide an effective and adequate contingency plan in case of service disruption or station closure. The officers will be responsible for preparing the governing legislation and the OA. Following the enactment of the necessary legislation, the officers would engage in integration planning and the detailed transition arrangements to oversee the implementation of the merger.

8. As explained above, the two officers will follow through the conclusion of the negotiations from July 2004 onwards, assess the outcome of the negotiations to decide upon the optimal form of legal and regulatory framework for the merged corporation and, upon the Government's decision to proceed with the merger, be responsible for the legislative process and oversee the implementation of the merger. They will provide policy input on all transport-related issues arising from the possible merger and a whole range of corporate governance issues relating to the formation of the merged corporation, and they will oversee the completion of the legislative process and the implementation of the merger. Our current estimate is that the process will take about two years to complete.

9. Taking into account the complexity of the tasks involved, we need two supernumerary posts of one AOSGB (D3) and one AOSGC (D2). The proposed ranking is to ensure that the post-holders have the requisite experience, exposure and expertise to execute the responsibilities of DS(T)4 and PAS(T)SD.

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The supernumerary AOSGB (D3) post created under delegated authority (paragraph 4 above) will lapse upon the creation of the proposed DS(T)4 post with effect from 1 July 2004.

Encls. 10. The job descriptions of DS(T)4 and PAS(T)SD are at Enclosures 1
1 - 3 and 2 respectively. The proposed organisation chart of ETWB is at Enclosure 3.

11. In the event that the Government, having regard to the outcome of the negotiations and all relevant factors, decides not to proceed with the merger, we will allow the two supernumerary posts to lapse earlier and report to the Establishment Subcommittee (ESC) as soon as practicable.

ALTERNATIVES CONSIDERED

12. The level and complexity of the responsibilities of the proposed DS(T)4 and PAS(T)SD posts require dedicated attention and input at AOSGB (D3) and AOSGC (D2) levels respectively. We have critically considered the possible redeployment of existing directorate posts to take on the work of the proposed DS(T)4 and PAS(T)SD posts. As all the other Deputy Secretaries and Principal Assistant Secretaries are fully occupied with their existing schedules, it is operationally not possible for them to take up the job without adversely affecting the discharge of their current duties.

FINANCIAL IMPLICATIONS

13. The proposed creation of the two supernumerary directorate posts will bring about an additional notional annual salary cost at mid-point of \$2,984,820 as follows –

Rank	Notional annual salary cost at mid-point (\$)	No. of Post
Supernumerary posts		
AOSGB (D3)	1,580,400	1
AOSGC (D2)	1,404,420	1
Total	<u>2,984,820</u>	<u>2</u>

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The additional cost expressed in terms of full annual average staff cost, including salaries and staff on-costs, amounts to \$4,255,000. The cost of the above two posts will be met by internal redeployment of existing resources within ETWB.

BACKGROUND INFORMATION

14. At its meeting on 25 June 2002, the Chief Executive-in-Council directed the Administration to conduct a feasibility study to look into the benefits and costs of merging the MTRCL and KCRC. Subsequently, a Steering Group co-chaired by FSTB and ETWB was established to conduct the study. After a series of discussions and deliberation, and taking into account the findings of the study, it was 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 and that the two corporations should report the outcome of their negotiations to the Government by 31 August 2004. To facilitate the commencement of the negotiations and to address issues arising from the negotiations concerning the parameters for the possible merger, one supernumerary post of AOSGB (D3) was created under delegated authority from FC with effect from 29 February 2004 in ETWB.

ESTABLISHMENT CHANGES

15. The establishment changes in the ETWB for the last two years are as follows –

Establishment (Note)	Number of posts		
	Existing (as at 1 April 2004)	As at 1 April 2003	As at 1 April 2002
(i) Environment and Transport Branch			
A	19+(1)#	19+(2)	20+(1)
B	44	43	47
C	58	58	90
Sub-total	121+(1)	120*+(2)	157+(1)
(ii) Works Branch			
A	20+(3)#	21+(3)	20+(3)
B	60	60	60
C	147	146	145
Sub-total	227+(3)	227+(3)	225+(3)
Total of (i) + (ii)	348+(4)	347+(5)	382+(4)

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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
- () – number of supernumerary directorate posts
- * the decrease of 10 posts and 27 posts in the Environment and Transport Branch respectively as at 1 April 2003 was due to the centralization of bureau administration and other support services under the Works Branch.
- # as at 1 April 2004, there are three unfilled directorate posts, one in Environment and Transport Branch and two in Works Branch.

CONSULTATION WITH LEGISLATIVE COUNCIL PANEL

16. We consulted the Legislative Council Panel on Transport on 26 March 2004. Members generally agreed that additional directorate support would be required to enable ETWB to lead and take through the whole merger process. Some Members were uncertain of the need for the proposed D2 post starting from July 2004 before the conclusion of the negotiations and a decision by the Government to proceed with the merger. One Member suggested that we should consider seeking the approval of this Subcommittee and the FC to extend the existing supernumerary D3 post, created under delegated authority, for a period of three months until end November 2004, and then upon a decision by the Government to proceed with the merger after considering the outcome of the negotiations, seek fresh approval from this Subcommittee and the FC at an appropriate time for the D3 and D2 posts for a longer period to oversee the remaining work of the merger exercise. We have addressed Members' questions in the preceding paragraphs. Regarding the suggestion of a 3-month extension of the current supernumerary D3 post, we consider that such an alternative staffing arrangement could not provide adequate directorate support needed from July 2004 to oversee the final phase of the negotiations as explained in paragraph 6 above. Besides, the present proposal will allow for continuity of work, which is important for the smooth and effective implementation of this highly complex merger exercise.

17. We have made conscious effort to streamline the structure of the Civil Engineering Department (CED) and Territory Development Department (TDD) to achieve greater efficiency and productivity through the amalgamation of the two departments; and propose to make the best use of part of the savings so achieved by deploying them to where they are most needed to enable the delivery of various important policy initiatives under our portfolios. In overall terms, the CED/TDD merger, proposed vide a separate paper EC(2004-05)5, will

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make possible a net reduction of nine permanent directorate (two of which are ungraded) and 57 non-directorate posts, involving a total saving of \$26,361,594 in terms of notional annual salary cost at mid-point or \$39,468,000 in terms of full annual average staff cost. These savings will be more than enough to cover the requirements in the present proposal and two other ESC submissions due for consideration at the same ESC sitting [namely, EC(2004-05)2 and EC(2004-05)4], collectively seeking the creation of one permanent and four supernumerary directorate posts, and involving \$7,697,880 in terms of notional annual salary cost at mid-point or \$11,162,000 in full annual average staff cost (or \$4,713,060 and \$6,907,000 respectively if other savings through redeployment are taken into account).

CIVIL SERVICE BUREAU COMMENTS

18. The Civil Service Bureau is satisfied that the staffing proposal contained in this paper will strengthen directorate input in dealing with the complex tasks arising from a possible merger of the MTRCL and KCRC. The grading and ranking of the proposed supernumerary DS(T)4 and PAS(T)SD 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

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

Environment, Transport and Works Bureau
April 2004

**Proposed 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 (Environment and Transport)
(to be retitled as 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; and
5. to set up the legal and regulatory framework for the merged corporation and oversee the implementation of the merger.

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

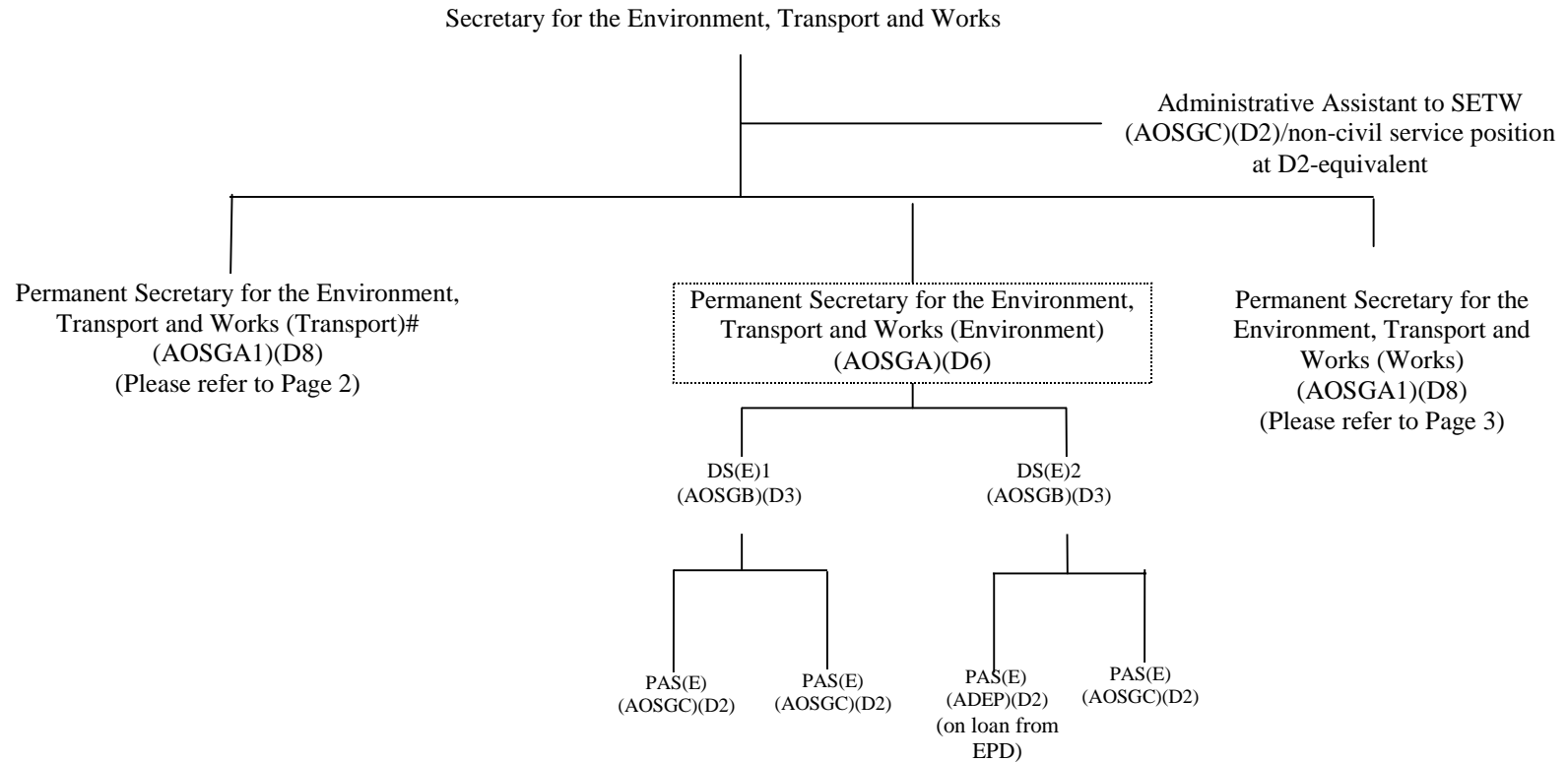
Rank : Administrative Officer Staff Grade C (D2)

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

Main Duties and Responsibilities –

1. to provide policy and administrative support 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; and
6. to manage the Government's consultant(s) in respect of matters concerning the traffic, transport and railway operation aspects of the merger exercise.

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



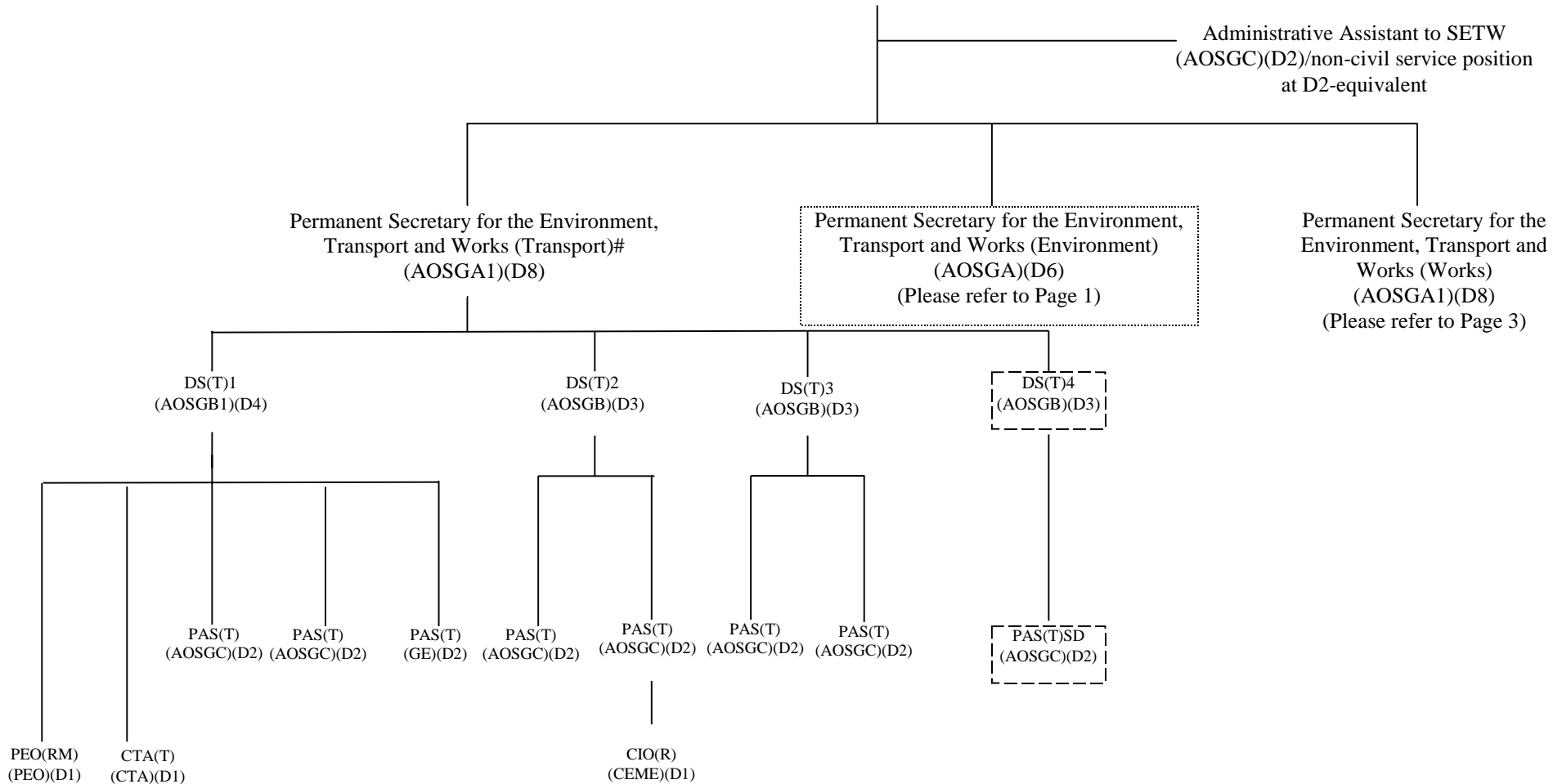
Legend

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
AOSGB	Administrative Officer Staff Grade B
AOSGC	Administrative Officer Staff Grade C
ADEP	Assistant Director of Environmental Protection
E	Environment
EPD	Environmental Protection Department

Post proposed to be retitled vide a separate paper EC(2004-05)2
 [Dotted Box] Post proposed for creation vide a separate paper EC(2004-05)2

Proposed Organisation Chart of the Environment, Transport and Works Bureau (Transport Branch)

Secretary for the Environment, Transport and Works



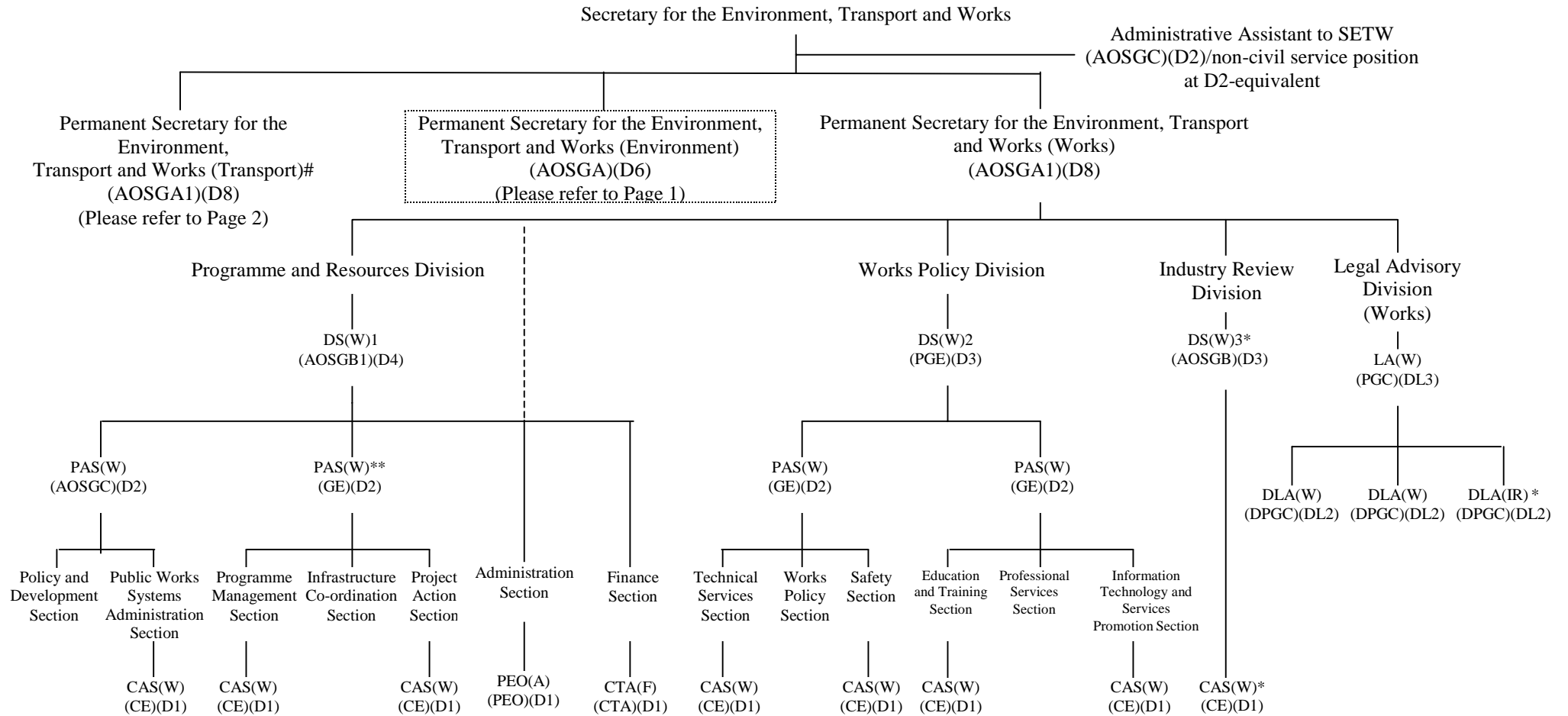
Legend

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

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

Post proposed to be retitled vide a separate paper EC(2004-05)2
 [---] Post proposed for creation vide a separate paper EC(2004-05)2
 [---] Posts proposed for creation

Proposed Organisation Chart of the Environment, Transport and Works Bureau (Works Branch)



Legend

SETW Secretary for the Environment, Transport and Works
 DS Deputy Secretary
 LA Legal Advisor
 PAS Principal Assistant Secretary
 DLA Deputy Legal Advisor
 IR Industry Review
 CAS Chief Assistant Secretary

AOSGA1 Administrative Officer Staff Grade A1
 AOSGB1 Administrative Officer Staff Grade B1
 AOSGB Administrative Officer Staff Grade B
 AOSGC Administrative Officer Staff Grade C
 PGE Principal Government Engineer
 GE Government Engineer
 CE Chief Engineer

PGC Principal Government Counsel
 DPGC Deputy Principal Government Counsel
 PEO Principal Executive Officer
 RM Resource Management
 CTA Chief Treasury Accountant
 A Administration
 F Finance
 W Works

Post proposed to be retitled vide a separate paper EC(2004-05)2

□ Post proposed for creation vide a separate paper EC(2004-05)2

* Supernumerary posts up to 5 July 2004

** GE post (D2) temporarily redeployed to undertake duties of co-ordination of major infrastructure projects. It is now proposed to make such redeployment on a permanent basis vide a separate paper EC(2004-05)5