

**For discussion
on 14 January 1998**

EC(97-98)47

ITEM FOR ESTABLISHMENT SUBCOMMITTEE OF FINANCE COMMITTEE

**HEAD 153 - GOVERNMENT SECRETARIAT :
TRANSPORT BUREAU
Subhead 001 Salaries**

Members are invited to recommend to Finance Committee
the creation of the following permanent post in the
Transport Bureau -

1 Chief Treasury Accountant
(D1) (\$92,650 - \$98,300)

PROBLEM

In view of the increasing volume and complexity of work relating to the financial monitoring of public transport operators and tunnel companies, the Transport Bureau (TB) requires a dedicated Financial Monitoring Unit (FMU) instead of relying on the FMU in the Economic Services Bureau (ESB) which itself is subject to increased workload.

PROPOSAL

2. We propose to create a permanent post of Chief Treasury Accountant (CTA) (D1) to head a new FMU in the Transport Infrastructure Division of TB.

/JUSTIFICATION

JUSTIFICATION

3. Set up in November 1986, the FMU in ESB is responsible for monitoring the financial affairs of public utility companies, including energy suppliers which fall within the policy area of the Secretary for Economic Services, and transport operators which fall within the policy area of the Secretary for Transport. The Unit is headed by an Assistant Director of Accounting Services (ADAS) (D2), designated as Principal Assistant Secretary for Economic Services (Financial Monitoring) (PAS(ES)FM). He is deputised by one Senior Treasury Accountant (STA) and supported by one Treasury Accountant (TA) on energy supplies matters, and one TA and one Accounting Officer II (AO II) on transport services matters. The existing organisation chart of ESB is at Enclosure 1.

Encl. 1

4. On energy supplies matters, the Unit administers the Scheme of Control Agreements (SCAs) that Government has made with the two power companies and the Information and Consultation Agreement (ICA) with the town gas company to ensure that the companies provide reliable and efficient energy supplies at reasonable prices. The main duties involve audit reviews of the performance of the power companies, processing tariff increase applications and proposals on energy supply from the power and town gas companies, and making submissions to the Energy Advisory Committee (EnAC), Provisional Legislative Council (PLC) and Executive Council (ExCo) on the financial affairs of those companies. Details of these duties are shown at Enclosure 2.

Encl. 2

5. On transport services matters, the Unit assists TB in monitoring the financial performance of eight public transport operators (five bus companies, two ferry companies and one tramway company) and four tunnel companies under the various franchises and Build-Operate-Transfer Tunnel Agreements. The main duties include assessing the forward planning programmes prepared by the transport operators, appraising cost statements and forecasts prepared by the transport operators and tunnel companies for fare/toll adjustment applications, evaluating the financial position and forecasts of tenderers for licensed ferry services and those of existing operators, and evaluating the financial performance of transport operators seeking franchise renewals. Details of these duties are also shown at Enclosure 2.

6. The work of the Unit has increased substantially in the past 12 to 18 months, both in volume and complexity, thereby overstressing its staff. The additional areas of work are summarised in paragraphs 7 and 8 below and set out in detail at Enclosure 3.

Encl. 3

/Additional

Additional work on transport services

7. The work associated with the financial monitoring of public transport operators and tunnel companies has grown substantially both in volume and complexity in the following areas -

- (a) tendering of new bus and ferry services by franchise or licence;
- (b) monitoring of additional bus franchisees;
- (c) bus and ferry franchise renewals and new grants;
- (d) mid-term review of the performance of franchised bus operators;
- (e) monitoring of railway corporations; and
- (f) monitoring of additional tunnel companies.

Additional work on energy supplies

8. The workload on energy supplies has also increased significantly, mainly arising from the following -

- (a) servicing the EnAC since its setting-up in July 1996;
- (b) monitoring of an additional energy supplier;
- (c) review of SCAs;
- (d) review of financial plans of the power companies; and
- (e) demand side management.

9. The existing arrangement of one FMU serving both ESB and TB can no longer cope with the increased workload and competing priorities in both policy areas. We have reviewed the arrangement and consider it appropriate for the two bureaux to have their own FMUs with each serving its own Policy Secretary according to his priorities. We therefore propose to establish an FMU in TB with the appropriate level of staffing support to take over from the FMU of ESB all its responsibilities in respect of transport services matters. The existing STA in TB who currently oversees and monitors the financial consultancy for the three high priority railway projects will be transferred to this new Unit.

10. In view of the scope and complexity of the work involved, we propose to create one permanent post of CTA, to be designated as Chief Treasury Accountant (Transport) (CTA(T)), to head the new FMU in TB. In performing his duties, the proposed CTA will need to work with financial executives of the public transport and tunnel companies, directorate officers in TB and other government departments, and financial consultants on transport infrastructure and railway projects. He is required to assist in the formulation of transport policies. Having regard to the complex and sensitive nature of the matters involved and to the high level of professional input required, we consider it necessary to pitch the proposed post at the CTA level so that the incumbent will have the necessary depth of experience, accounting expertise and maturity to discharge these duties effectively. The proposed duty list of CTA(T) is at

Encl. 4 Enclosure 4. The existing and proposed organisation charts of TB are at Enclosures 5
Encls.5&6 and 6 respectively.

11. The transfer of the responsibility on transport services matters to TB together with the two accounting posts will relieve the PAS(ES)FM of the duties of overseeing the provision of financial services support to TB. These duties currently take up only a small percentage of PAS(ES)FM's time and the percentage will diminish as the work on the energy side as described in paragraph 8 above increases. The transfer will not affect the PAS(ES)FM to a large extent and will be more than offset by the increased workload in monitoring the power and town gas companies. ESB will need to create an additional TA post in 1998-99 in its FMU to cope with the increasing work on the energy side. We therefore consider the continued ranking of the PAS(ES)FM post at the ADAS level appropriate. The proposed revised duty list of the PAS(ES)FM is at Enclosure 7. The proposed organisation chart of ESB is at Enclosure 8.

Encl. 7
Encl. 8

FINANCIAL IMPLICATIONS

12. The additional notional annual salary cost at mid-point of the proposal is \$1,144,200. The full annual average staff cost of the proposal, including salaries and staff on-costs, is \$2,170,056. We will include sufficient provision in the 1998-99 draft Estimates to meet the cost of this proposal.

13. Subject to Members' approval of the proposal, the Secretary for Transport will create, through the Departmental Establishment Committee mechanism, four non-directorate accounting posts with a total notional annual mid-point salary value of \$2,882,400, to provide professional support to the CTA.

/On

On transfer of its transport services responsibilities to the TB, the FMU in ESB will delete two accounting posts from its establishment, with a notional annual mid-point salary value of \$969,540.

CIVIL SERVICE BUREAU COMMENTS

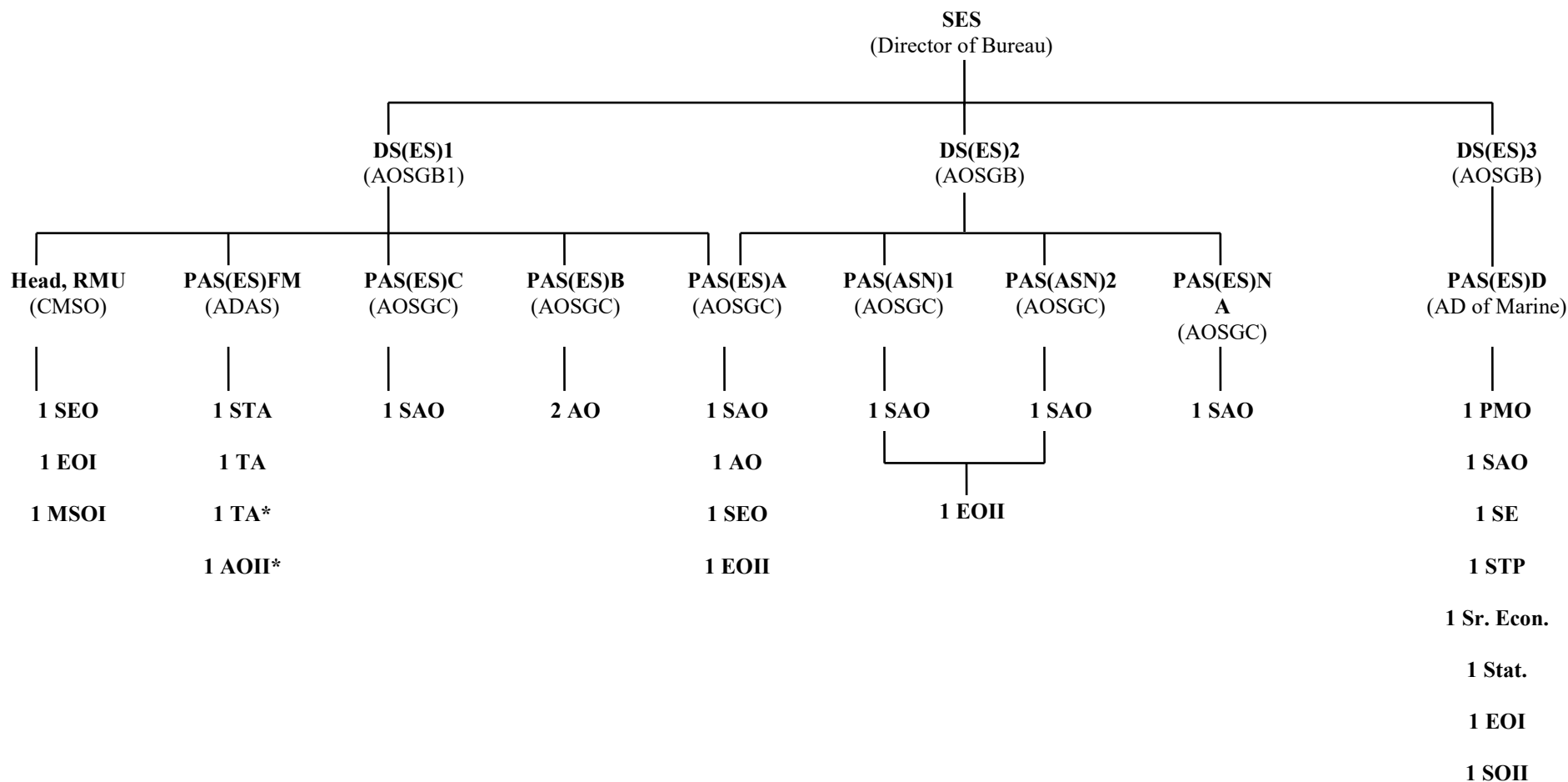
14. Civil Service Bureau considers the ranking and grading of the proposed CTA post to be appropriate, having regard to the level and scope of responsibilities and professional input required. It also supports the continued ranking of the PAS(ES)FM post at the ADAS level.

ADVICE OF THE STANDING COMMITTEE ON DIRECTORATE SALARIES AND CONDITIONS OF SERVICE

15. The Standing Committee on Directorate Salaries and Conditions of Service has advised that the grading proposed for the post would be appropriate if the post were to be created.

Transport Bureau
December 1997

Existing Organisation Chart of the Economic Services Bureau



* Posts to be deleted

Legend :

SES	- Secretary for Economic Services	AOSGB1	- Administrative Officer Staff Grade B1	SAO	- Senior Administrative Officer
DS(ES)	- Deputy Secretary for Economic Services	AOSGB	- Administrative Officer Staff Grade B	AO	- Administrative Officer
PAS(ES)	- Principal Assistant Secretary for Economic Services	AOSGC	- Administrative Officer Staff Grade C	SEO	- Senior Executive Officer
PAS(ES)FM	- Principal Assistant Secretary for Economic Services (Financial Monitoring)	ADAS	- Assistant Director of Accounting Services	EOI	- Executive Officer I
PAS(ES)NA	- Principal Assistant Secretary for Economic Services (New Airport)	AD of Marine	- Assistant Director of Marine	EOII	- Executive Officer II
PAS(ASN)	- Principal Assistant Secretary (Air Services Negotiations)	PMO	- Principal Marine Officer	SE	- Senior Engineer
Head, RMU	- Head, Resource Management Unit	STA	- Senior Treasury Accountant	STP	- Senior Town Planner
		TA	- Treasury Accountant	Sr. Econ.	- Senior Economist
		AOII	- Accounting Officer II	Stat.	- Statistician
		CMSO	- Chief Management Services Officer	SOII	- Statistical Officer II
		MSOI	- Management Services Officer I		

Main Duties of the Financial Monitoring Unit of Economic Services Bureau

(I) Energy Supplies (policy area of the Secretary for Economic Services)

- (a) Conducting annual audit reviews of the performance of the power companies under the Scheme of Control Agreements and monitoring the follow-up action on the Administration's observations and recommendations;
- (b) processing annual tariff increase applications from the power and town gas companies and conducting negotiations for increases which are reasonable to the companies and acceptable to the community;
- (c) conducting financial appraisals on proposals put forward from time to time either by the power and town gas companies or the Government, such as measures on energy efficiency and conservation, cost reduction, and reduction in capacity reserves; and
- (d) making submissions to and attending meetings with the Energy Advisory Committee, Provisional Legislative Council (PLC) and Executive Council (ExCo) on matters concerning the financial affairs of the power and town gas companies.

(II) Transport Services (policy area of the Secretary for Transport)

- (a) Conducting annual financial assessments of the forward planning programmes prepared by the transport operators;
- (b) appraising cost statements and forecasts prepared by the transport operators and tunnel companies for fare/toll adjustment applications and providing support in the negotiations for adjustments which are reasonable to the companies and acceptable to the community;
- (c) evaluating the financial position and forecasts of tenderers for licensed ferry services and those of existing operators;

/(d)

- (d) for franchise renewals, evaluating the financial performance of transport operators and the terms to be included in the new franchises to enhance Government's monitoring role, and providing technical support to the negotiator during the negotiations with the franchisees; and
- (e) commenting on the financial aspects of draft submissions concerning transport operators and tunnel companies to Transport Advisory Committee, PLC and ExCo.

**Additional Areas of Work of the Financial Monitoring Unit (FMU) in
Economic Services Bureau**

Transport Services

The work associated with the financial monitoring of public transport operators and tunnel companies has grown substantially both in volume and in complexity in the areas detailed below -

(a) Tendering of new bus and ferry services by franchise or licence

It is our policy to award new bus and ferry franchises or licences through open tender, wherever practicable, to introduce more competition. We have granted two bus franchises in this manner in the past two years and have plans to tender out about ten ferry routes in the next two years. The FMU needs to provide additional support to assist in the preparation of the tender documents, to appraise and evaluate the financial strength and assumptions of each tenderer and to take part in the inter-departmental board set up to assess the tenders.

(b) Monitoring of additional bus franchisees

Since mid-1997 we have launched, in phases, two new bus networks to tie in with the population intake of the Tung Chung New Town and the commissioning of the new airport. The total number of franchised bus networks which is subject to financial monitoring by Government has increased from four to six.

(c) Bus and ferry franchise renewals and new grants

Franchise renewal exercises are complex in nature, involving a thorough review of the financial and operational performance of the operators, their development strategies and financial plans, and the franchise terms and conditions. The current franchises of China Motor Bus Company, Hongkong & Yaumati Ferry and Star Ferry will expire within the next two years and are being reviewed. The FMU has been reviewing the terms of renewals to strengthen the Government's monitoring role. As for new grants, in addition to serving on the tender assessment boards in case of public tenders, the FMU has to ensure that the financial undertakings and obligations required of the tenderers are appropriately reflected in the franchises.

/(d)

(d) Mid-term review of the performance of franchised bus operators

All bus franchises with a franchise period of around ten years now include a new provision for a mid-term review of the performance of the franchisee. Similar to a franchise renewal, we need to review the performance of each operator, its development strategies and financial plans, and to improve the terms of the franchise to meet changes in requirements. The FMU is required to provide support for the additional work.

(e) Monitoring of railway corporations

With the imminent opening of the Airport Railway and increasing public criticisms on the existing fare structures, the FMU has to provide support for the financial monitoring of the two railway corporations and in the review of their fare structure and services.

(f) Monitoring of additional tunnel companies

The completion of the Western Harbour Crossing in April 1997 and Route 3 (Country Park Section) in mid-1998 will increase the number of privately operated tunnels from three to five, leading to a substantial increase in workload. More importantly, a toll adjustment mechanism is prescribed under the ordinances of these two projects. The mechanism calls for the analysis of a large number of documents submitted by the franchisees each year, including an annual budget with details such as hedging arrangements for interest costs, projection of major maintenance expenditure, a rolling projection of net revenue for the succeeding three years, and the quarterly management accounts and statements of net revenue. Transport Bureau will need to monitor the financial performance of these two franchisees on a regular basis. Besides, the franchise for the Cross-Harbour Tunnel will expire in August 1999. Consideration of the various financial and management options has just started and this requires urgent provision of professional support from the FMU.

Energy supplies

The workload on energy supplies has also increased significantly, mainly arising from the following -

/(a)

(a) Servicing the Energy Advisory Committee (EnAC)

Following the setting up of EnAC in July 1996 to advise Government on all energy matters, the FMU has to service EnAC by preparing submissions for its consideration and giving evidence at its meetings for matters concerning the power and town gas companies.

(b) Monitoring of an additional energy supplier

The Hongkong and China Gas Company Limited is not subject to any price regulation by the Government. However, the conclusion of the Information and Consultation Agreement in April 1997 requiring the company to consult the Government on its tariff adjustments and major capital expenditure plans and to increase transparency in its operations has effectively created an additional public utility under the purview of the FMU.

(c) Review of Scheme of Control Agreements (SCAs)

We have been conducting an interim review of the arrangements in the SCAs with the two power companies since October 1997 which we expect to last up to December 1998. The review aims to address the concerns of the various interested parties (legislators, interest groups and the Administration) about the existing arrangements provided in the SCAs. Both the interests of the companies and the consumers are covered. The review will involve protracted negotiations with the power companies and detailed evaluation of various proposals, requiring the seeking of legal advice and advice from external financial consultants and the EnAC, Executive Council's (ExCo's) steer and the briefing of the Provisional Legislative Council.

(d) Review of financial plans of the power companies

We will conduct a review of the next long-term financial plan of each of the two power companies, one commencing in March 1998 and the other in January 1999. For each company, the review will involve a comprehensive examination and evaluation of the expenditure and revenue forecasts, the structure of debt/equity for financing future operations, arrangements to cover exchange and interest rate risks for major capital expenditure and the financial and economic assumptions

/and

and scenarios involved so as to derive the ceiling on the basic tariff level, and the financing arrangements over the next four to five years for the approval of ExCo. The reviews will take about nine to twelve months of intensive work with the companies, the Government consultant and the Electrical and Mechanical Services Department.

(e) Demand side management

To promote community-wide participation in conservation or economical use of electricity, we are negotiating Demand Side Management Agreements with the two power companies with a view to commencing full-scale implementation of the demand side management programmes in 1998. The agreements entail annual evaluation of the programmes and audit of their performance for determining the costs qualified for recovery through the tariff.

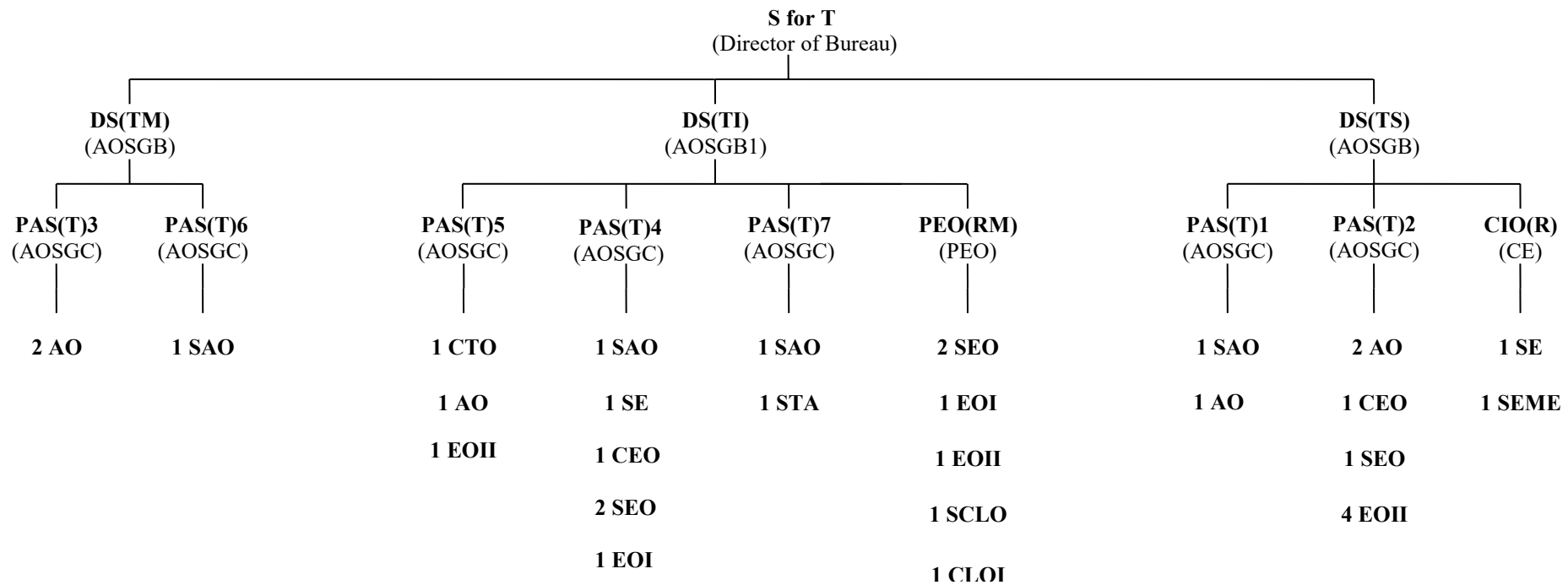
**Transport Bureau
Proposed Job Description of CTA(T)**

Post : Chief Treasury Accountant (Transport)
Rank : Chief Treasury Accountant
Responsible to : Deputy Secretary for Transport (Transport Infrastructure)

Main Duties :

1. Overall co-ordination and control of the work of the Financial Monitoring Unit;
2. ensuring the advice, proposals or recommendations given by the Unit are reliable and pertinent for formulating decisions by the Administration;
3. financial monitoring of public transport companies providing railway, bus, ferry, tramway and tunnel services;
4. processing fare/toll increase applications from bus, ferry, tramway and tunnel operators;
5. conducting financial appraisal of capital projects and future expansion plans; and
6. attending meetings of the Transport Advisory Committee, Provisional Legislative Council and Executive Council on matters regarding the financial affairs of the public transport and tunnel companies.

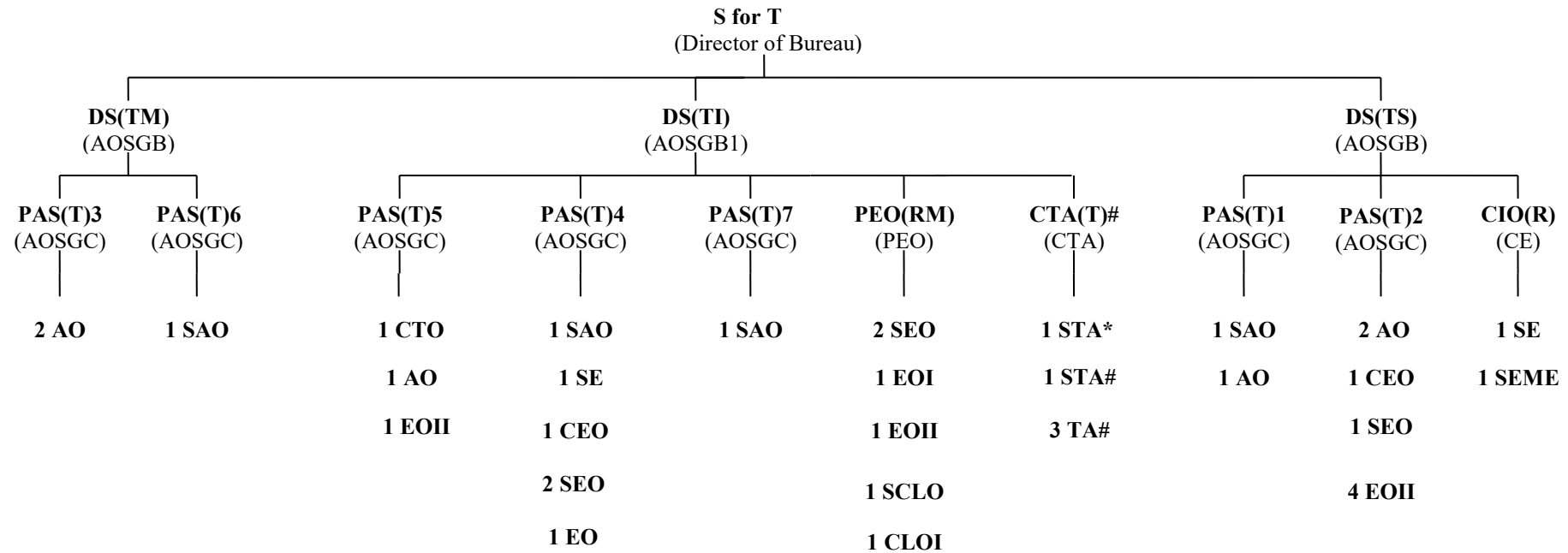
Existing Organisation Chart of the Transport Bureau



Legend :

S for T	- Secretary for Transport	AOSGB1	- Administrative Officer Staff Grade B1	CEO	- Chief Executive Officer
DS(TI)	- Deputy Secretary for Transport (Transport Infrastructure)	AOSGB	- Administrative Officer Staff Grade B	SEO	- Senior Executive Officer
DS(TM)	- Deputy Secretary for Transport (Transport Management)	AOSGC	- Administrative Officer Staff Grade C	EOI	- Executive Officer I
DS(TS)	- Deputy Secretary for Transport (Transport Services)	SAO	- Senior Administrative Officer	EOII	- Executive Officer II
PAS(T)	- Principal Assistant Secretary for Transport	AO	- Administrative Officer	CTO	- Chief Transport Officer
PEO(RM)	- Principal Executive Officer (Resource Management)	CE	- Chief Engineer	STA	- Senior Treasury Accountant
CIO(R)	- Chief Inspecting Officer (Railways)	SEME	- Senior Electrical & Mechanical Engineer	SCLO	- Senior Chinese Language Officer
		SE	- Senior Engineer	CLOI	- Chinese Language Officer I

Proposed Organisation Chart of the Transport Bureau



New posts proposed to be created

* 1 STA post to be redeployed from within the Transport Infrastructure Division

Legend :

S for T	- Secretary for Transport	AOSGB1	- Administrative Officer Staff Grade B1	CEO	- Chief Executive Officer
DS(TI)	- Deputy Secretary for Transport (Transport Infrastructure)	AOSGB	- Administrative Officer Staff Grade B	SEO	- Senior Executive Officer
DS(TM)	- Deputy Secretary for Transport (Transport Management)	AOSGC	- Administrative Officer Staff Grade C	EOI	- Executive Officer I
DS(TS)	- Deputy Secretary for Transport (Transport Services)	SAO	- Senior Administrative Officer	EOII	- Executive Officer II
PAS(T)	- Principal Assistant Secretary for Transport	AO	- Administrative Officer	CTO	- Chief Transport Officer
PEO(RM)	- Principal Executive Officer (Resource Management)	CE	- Chief Engineer	STA	- Senior Treasury Accountant
CIO(R)	- Chief Inspecting Officer (Railways)	SEME	- Senior Electrical & Mechanical Engineer	TA	- Treasury Accountant
CTA(T)	- Chief Treasury Accountant (Transport)	SE	- Senior Engineer	SCLO	- Senior Chinese Language Officer
				CLOI	- Chinese Language Officer I

**Economic Services Bureau
Revised Duty List of PAS(ES)FM**

Post : Principal Assistant Secretary (Economic Services) Financial Monitoring

Rank : Assistant Director of Accounting Services

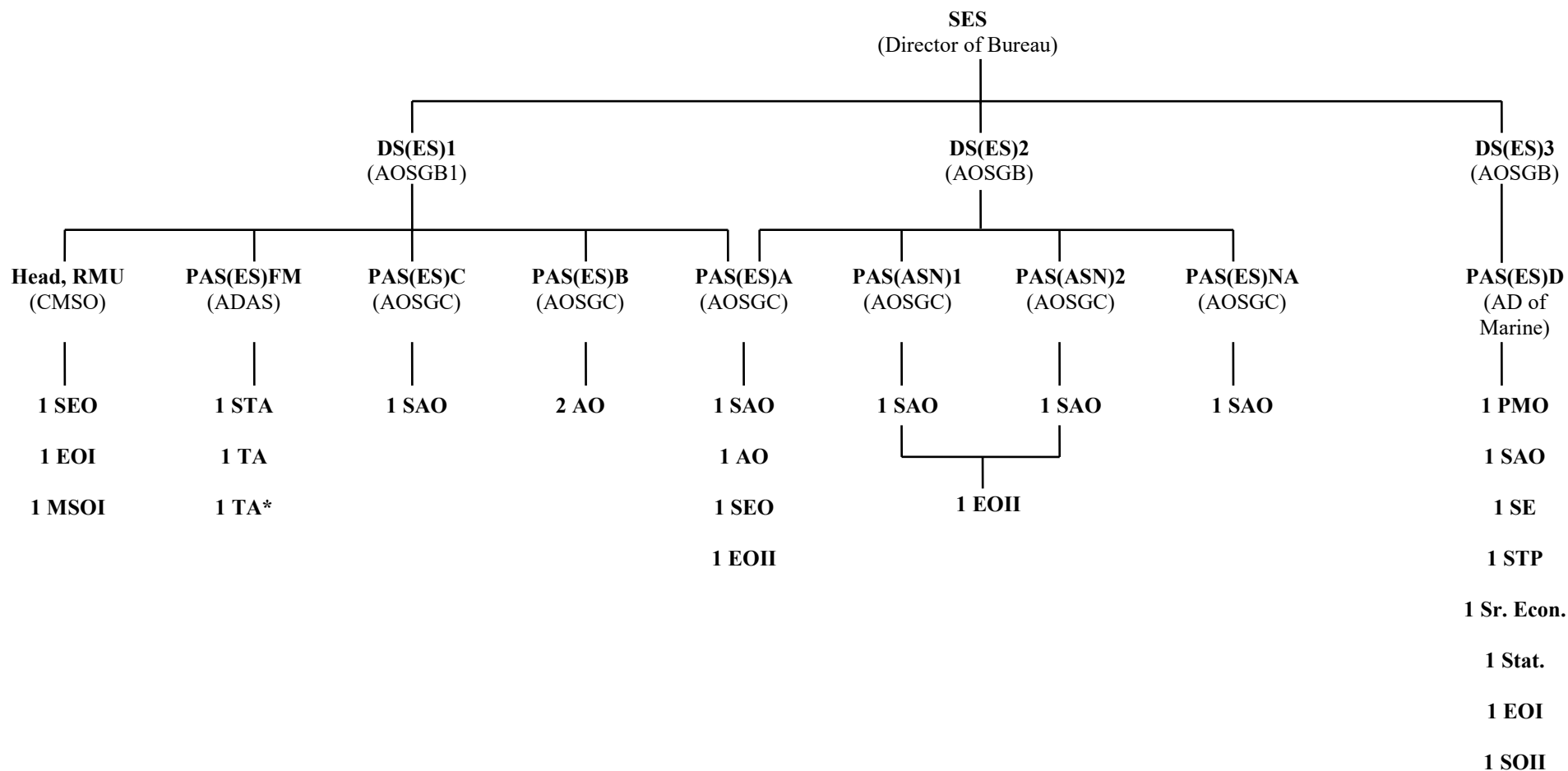
Responsible to : Deputy Secretary for Economic Services 1

Duties and responsibilities :

1. Administer the Scheme of Control Agreements with the two power companies and the Information and Consultation Agreement with the town gas company to ensure that these companies provide a reliable and efficient service to the consuming public at a reasonable price and to deal with all financial affairs of the companies arising therefrom.
2. Vet the periodic forward long-term financial plans of the power companies to ensure that all components therein are reasonable and justified and that the financing arrangements are sound and appropriate for the approval by Executive Council.
3. Conduct annual auditing reviews of the financial performance of the power companies to ensure that the permitted return to the companies are correctly compiled, any variations from the agreed arrangements in the Financial Plans are justified and that areas worth improving on are brought up and followed up with the companies.
4. Conduct the scheduled interim reviews with the power companies of the provisions and arrangements in the Scheme of Control Agreements to ensure that they remain suitable and equitable to the power companies and the consumers and to institute changes where appropriate.
5. Vet applications for annual tariff adjustments by the power and town gas companies to ensure that the adjustments are justified, reasonable and acceptable to the community.

6. Vet the resource plans of the power companies for implementation of Demand Side Management (DSM) programmes to ensure that all items of expenditure forecasts are justified and reasonable, and to conduct annual auditing reviews to determine the incentive payments to the power companies and the actual programme expenditures qualified for recovery by the companies through the tariffs in accordance with the individual DSM Agreements entered between the Government and each of the power companies.

Proposed Organisation Chart of the Economic Services Bureau



* Posts to be created in 1998-99 under delegated authority to handle additional workload arising from energy matters

Legend :

SES	- Secretary for Economic Services	AOSGB1	- Administrative Officer Staff Grade B1	SAO	- Senior Administrative Officer
DS(ES)	- Deputy Secretary for Economic Services	AOSGB	- Administrative Officer Staff Grade B	AO	- Administrative Officer
PAS(ES)	- Principal Assistant Secretary for Economic Services	AOSGC	- Administrative Officer Staff Grade C	SEO	- Senior Executive Officer
PAS(ES)FM	- Principal Assistant Secretary for Economic Services (Financial Monitoring)	ADAS	- Assistant Director of Accounting Services	EOI	- Executive Officer I
PAS(ES)NA	- Principal Assistant Secretary for Economic Services (New Airport)	AD of Marine	- Assistant Director of Marine	EOII	- Executive Officer II
PAS(ASN)	- Principal Assistant Secretary (Air Services Negotiations)	PMO	- Principal Marine Officer	SE	- Senior Engineer
Head, RMU	- Head, Resource Management Unit	STA	- Senior Treasury Accountant	STP	- Senior Town Planner
		TA	- Treasury Accountant	Sr. Econ.	- Senior Economist
		AOII	- Accounting Officer II	Stat.	- Statistician
		CMSO	- Chief Management Services Officer	SOII	- Statistical Officer II
		MSOI	- Management Services Officer I		