

## **Speech**

### **Speech by SFST at Seminar on Corporate Governance for Subvented Organisations (English only)**

Monday, May 31, 2010

Following is the speech delivered by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Seminar on Corporate Governance for Subvented Organisations at Jockey Club Auditorium, Hong Kong Polytechnic University, this morning (May 31):

Ladies and gentlemen,

Thank you all for being here this morning.

You are here because of your interest in the good corporate governance of subvented organisations. I am here to do two things. First is to emphasise the importance that the Government and the public place on this issue. Second is to emphasise that our objective in publishing a new Guide to Corporate Governance in Subvented Organisations, and in arranging this seminar, is to provide you with practical advice and assistance, not to impose control. We hope to start a conversation from which can come an enduring effort to build and sustain the quality of corporate governance in the non-profit sector.

Subvented organisations play a huge role in the delivery of public services in Hong Kong. They provide a wide spectrum of services, enhancing cultural life, improving health and education, and helping economic development to mention only a few. Some even help with the oversight of government itself. Subvented organisations employ as many staff as the Government. They receive about 40% of annual recurrent public expenditure, though I note that many organisations are not wholly dependent on public funds, raising additional money from a variety of sources.

Many of you in the audience today sit on the board of one or more, sometimes many more, subvented organisations. Let me take this opportunity to thank you for the selfless commitment to community and public service that so many of you have demonstrated. I am sure that many of you will have quickly realised that an invitation to sit on a board is not merely an honour, not just recognition of your expertise, experience and standing in the community, but an onerous task that carries real responsibilities.

Boards receiving public funds, employing dedicated staff and delivering essential public services have genuine responsibilities. They need to do the right thing by their staff, by end-users of the services, and by the Hong Kong taxpayers.

Corporate governance is a means by which organisations are held to account by their stakeholders. It started in the private sector, but it soon became apparent that the concept is equally applicable to the public sector. This morning's speakers will emphasise some of the key features that good corporate governance requires. It is also possible that the Director of Audit may mention some of the not-so-good features that he has come across.

I do not wish to impinge upon the presentations that will follow shortly, but I would like to highlight what I consider to be some of the key points. First, all those overseeing expenditure of public funding must be accountable for the use of that money. This requires that sound accounting, budgeting and reporting systems must be put in place, and practised.

Second, the board of directors - by whatever title they are called - must be responsible and accountable for the actions of the organisations they control. Of course, part-time and unpaid directors cannot oversee every activity on a daily basis. But they have a duty to put in place a competent and reliable management team, and they must exercise responsible oversight.

Third. There is no one-size-fits-all solution. Hong Kong's subvented organisations vary enormously in size, budget, types of services, and so on. Each organisation needs to put in place a corporate governance regime that is appropriate to its circumstances. This should be agreed with the relevant oversight department. A time-table or roadmap should be drawn up to guide progress in implementing any necessary improvements.

I trust that the guide will prove helpful to both subvented organisations and departments alike. It provides a handy reference of the key elements of good corporate governance practice, and puts them into the Hong Kong public service context. The guide makes clear that every organisation needs to look at its own circumstances and objectives, and decide what is appropriate. Oversight departments can assist in this process. Essential corporate governance requirements should be included in the relevant funding agreements.

This is not a charter for departments to try to micro-manage their subvented organisations. Far from it. The responsibility for managing each and every subvented organisation lies with its board of directors.

Nonetheless, subvented organisations should ensure that sufficient, accurate and timely reports on objectives, performance, accounts and budgets are passed to their oversight departments.

Some organisations, the smaller ones in particular, may need help to improve their arrangements. The Government is considering how best to ensure that help is available, without interfering with the independence that gives subvented organisations their vitality and innovative character. There is a questionnaire among the documents on your seat. Please complete this. It will help us assess the various needs different organisations may have and decide how best to proceed.

Let me take this opportunity to thank this morning's speakers. I know we will benefit greatly from their experience and expertise. I would add a special thank you to those who helped with the drafting of the guide.

Once again, thank you for being here. I trust you will all have a fruitful and constructive morning.

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