

LEGISLATIVE COUNCIL PAPER

ACCOUNTABILITY SYSTEM FOR PRINCIPAL OFFICIALS

INTRODUCTION

This paper presents the framework of the new accountability system for principal officials and the details relating to its implementation.

FRAMEWORK OF THE ACCOUNTABILITY SYSTEM

2. The Government of the Hong Kong Special Administrative Region (HKSARG) intends to implement the new accountability system as detailed below with effect from 1 July 2002 when the second term Chief Executive assumes office:

- (a) the new accountability system would be applicable to the principal official positions of Secretaries of Department and Directors of Bureau;
- (b) the Chief Executive could nominate candidates both from inside and outside the civil service for appointment by the Central People's Government to these principal official positions;
- (c) the principal officials so appointed would be employed on other than civil service terms. They would not be civil servants. They would be accountable to the Chief Executive for the success or failure of matters falling within the portfolios assigned to them by the Chief Executive. They would accept total responsibility and they may have to step down for serious failures relating to their portfolios. These include serious failures in policy outcome or serious mishaps in policy implementation. They may also have to step down for grave personal misconduct;
- (d) their term of employment would not exceed the term of the Chief Executive who nominates them for appointment and subject to

Article 48(5) of the Basic Law, their employment contracts may be terminated at any time without cause or compensation;

- (e) there would be three Secretaries of Department and 11 Directors of Bureau;
- (f) they would be directly responsible to the Chief Executive;
- (g) the Secretaries of Department and Directors of Bureau would be appointed as members of the Executive Council;
- (h) the Secretary for the Civil Service would be one of the principal officials under the accountability system. He would be responsible to the Chief Executive for civil service policy and the management of the civil service. As a matter of policy, the Secretary for the Civil Service would be selected from within the civil service. Like other Directors of Bureau, he would be appointed as a member of the Executive Council. He would be employed on other than civil service terms and conditions. But he retains his link with the civil service in that he does not have to leave the civil service permanently before taking up the appointment. Age permitting, he may return to the civil service at his original rank after his appointment as Secretary for the Civil Service;
- (i) the D8 civil service posts in bureaux would be re-titled as Permanent Secretaries;
- (j) the civil service would continue to be permanent, meritocratic and politically neutral;
- (k) the Government would seek to improve its working relationship with the legislature. Principal officials would personally work with Legislative Council (LegCo) members and enlist their support for policy and other initiatives. They would personally engage the community and work with the media, commentators, academia and other opinion formers;

- (l) once the accountability system is in place, the principal officials would as a matter of priority conduct a review of the staffing and structure of the policy bureaux and the working relationship between the policy bureaux and the executive departments falling within their respective portfolios. The overall direction of the review would be to streamline the structure and working relationship between the two, merging and integrating similar functions being performed by both, making better use of resources and enhancing the efficient and effective implementation of policy and delivery of services to the public. The review would be completed within 12 months with a view to effecting sufficient savings to make the introduction of the accountability system a cost neutral exercise;
- (m) the principal officials would also conduct a review of the advisory and statutory bodies relating to their respective portfolios with a view to tapping the best talents and advice from a wide spectrum of the community and enhancing the effectiveness of these bodies;
- (n) the employment package for the Secretaries of Department and Directors of Bureau would be as follows:
 - (i) cash remuneration:
 - \$3,743,050¹ per annum (\$311,900¹ per month) for Directors of Bureau,
 - \$3,874,050¹ per annum (\$322,850¹ per month) for Secretary for Justice (SJ), i.e. 103.5% of the remuneration for Directors of Bureau,
 - \$4,009,650¹ per annum (\$334,150¹ per month) for Financial Secretary (FS), i.e. 103.5% of the remuneration for SJ, and
 - \$4,150,000¹ per annum (\$345,850¹ per month) for

¹ Rounded to the nearest 50 dollars.

Chief Secretary for Administration (CS), i.e. 103.5% of the remuneration for FS,

- (ii) annual leave of 22 working days per annum, subject to a maximum accumulation limit of 22 days. Any accumulated leave will be forfeited upon resignation or termination of contract or at the end of the term of the contract,
- (iii) medical and dental benefits on the same basis as those provided to civil servants,
- (iv) Mandatory Provident Fund (MPF) contribution by the Government,
- (v) a car and driver for use at the discretion of the principal officials,
- (vi) CS, FS and SJ will be assigned their respective official residences,
- (vii) the cash remuneration package will not be linked to the civil service pay scales but may be reviewed from time to time at the discretion of the Chief Executive;
- (o) integrity checking and medical examination would be conducted on prospective candidates before they are nominated for appointment as principal officials; and
- (p) Serving civil servants appointed as principal officials will be given approval to retire if they have reached the earliest permissible retirement age under their respective pension schemes. They will receive their pension lump sum and their monthly pension payment will not be subject to suspension. If they have not reached the earliest permissible retirement age, they will be given approval to resign if they are on the New Pension Scheme, with immediate payment of their pension lump sums in accordance with a directive by the Chief Executive under section 11(2) of the Pension Benefits

Ordinance. Their monthly pension will be suspended until they have reached their earliest permissible age of retirement. But the suspension will no longer apply once they have stepped down from their principal official positions and are no longer in the public service even before they have reached their earliest permissible retirement age. To provide a clean break from the civil service, the retired/resigned civil servants should be given approval to encash all their accumulated leave balance and leave passage account on a no-gain no-loss basis.

3. We also intend to introduce the legislative amendments at **Annex A and Annex B** to effect the transfer of statutory functions to the principal officials under the accountability system. The Resolution at **Annex A**, subject to further refinements as necessary, and the draft Order at **Annex B**, have to come into force on 1 July 2002.

BACKGROUND

4. The resumption of the exercise of sovereignty by China over Hong Kong in 1997 with Hong Kong people governing Hong Kong as provided for by way of the Basic Law has given the citizens of Hong Kong greater awareness of the need for good governance of Hong Kong and better accountability of their Government and its officials. With an elected Chief Executive, a fully elected legislature, and an increasingly aggressive and critical media, Government operations and policy formulation are subject to increasing public scrutiny and pressure. There are increasing calls for senior civil servants to be held accountable for policy failures, including calls for some of them to step down.

5. These changes have shown up an inherent mismatch between the civil service status of these officials and the demands placed on them. At present, all Secretaries of Department and Directors of Bureau are civil servants. As civil servants, they are subject to the civil service appointment and removal system. Holding them responsible and expecting them to step down in the case of serious policy failures is incompatible with the underlying philosophy of a permanent civil service and its established appointment and removal system.

6. Further, the work of Secretaries of Department and Directors of

Bureau has increased tremendously during the last four and half years. In addition to overseeing the implementation of policies, monitoring the delivery of services by the executive departments, and exercising various statutory and administrative functions, more and more time has to be spent on lobbying and dealing with LegCo, the media and the community at large. Their present day role and responsibilities do not sit well with their traditional role.

7. In the light of these developments, the Chief Executive undertook in his 2000 Policy Address to conduct a review. The objectives are: to strengthen the accountability of principal officials; ensure that the Government can better respond to the needs of the community; enhance coordination in policy formulation; strengthen the cooperation between the Executive and the Legislature; ensure effective implementation of policies and provide quality services to the public.

BASIC PRINCIPLES

8. In conducting the review, we are guided by the following principles:

- (a) the new system must be consistent with the Basic Law;
- (b) the stability and integrity of the civil service must be maintained;
and
- (c) a permanent, meritocratic and politically neutral civil service must be maintained.

KEY FEATURES

Terms and conditions

9. A new system of employment will be introduced into the highest level of Government under the Chief Executive, i.e. the Secretaries of Department and the Directors of Bureau. These principal officials will be employed on terms and conditions different from those of the civil service. They will not be civil servants. The civil service recruitment, employment,

assessment, promotion, disciplinary and removal mechanisms do not apply to them. However, as public servants they will be subject to the full force of the Prevention of Bribery Ordinance as well as other legislation applicable to public servants.

10. Under the new system, the Chief Executive will nominate candidates of high personal integrity and ability from inside and outside the civil service for appointment by the Central People's Government as principal officials. They will be employed on contract. The term of their contract will not exceed the term of the Chief Executive who nominates them for appointment.

Number and portfolios

11. There will be a total of 14 principal officials under the accountability system, i.e. the three Secretaries of Department and 11 Directors of Bureau. The post titles of these principal officials are as follows:

- Chief Secretary for Administration
- Financial Secretary
- Secretary for Justice
- Secretary for the Civil Service
- Secretary for Commerce, Industry and Manpower
- Secretary for Constitutional Affairs
- Secretary for Economic Development
- Secretary for Education
- Secretary for the Environment, Health and Welfare
- Secretary for Financial Services and the Treasury
- Secretary for Home Affairs
- Secretary for Housing, Planning and Lands
- Secretary for Security
- Secretary for Transport and Works

The status and conditions of employment of the other five principal officials² referred to in Article 48(5) of the Basic Law will remain unchanged.

² Commissioner Against Corruption, Director of Audit, Commissioner of Police, Director of Immigration and Commissioner of Customs and Excise

12. Principal officials under the accountability system are the most important officials within the Government. They will be accountable to the Chief Executive for the success or failure of matters falling within their respective portfolios. They will accept total responsibility and in an extreme case, they may have to step down for serious failures relating to their respective portfolios. These include serious failures in policy outcome and serious mishaps in the implementation of the relevant policies. They may also have to step down for grave personal misconduct or if they cease to be eligible under the Basic Law.

13. They will be appointed to the Executive Council and will be responsible for all aspects of their portfolios: from determining policy objectives and goals, to policy initiation, policy formulation, policy implementation and policy outcome. The Secretaries of Department and Directors of Bureau will be directly responsible to the Chief Executive and they will have direct access to the Chief Executive. They will take part directly in the decision making process relating to the allocation of resources of the Government as a whole. They will have a strong say in the assignment of personnel working directly under them and the share of financial resources allocated to them. More specifically, their role and responsibility will be as follows:

- (a) to gauge public opinion and take societal interests into account in serving the community;
- (b) to set policy objectives and goals, and develop, formulate and shape policies;
- (c) to take part as a member of the Executive Council in all of the deliberations and decision making at the Executive Council and assume collective responsibility for the decisions made;
- (d) to secure the support of the community and LegCo for their policy and legislative initiatives as well as proposals relating to fees and charges and public expenditure;
- (e) to attend full sessions of LegCo to initiate bills or motions, respond

to motions and answer questions from LegCo members;

- (f) to attend LegCo committee, subcommittee and panel meetings where major policy issues are involved;
- (g) to exercise the statutory functions vested in them by law;
- (h) to oversee the delivery of services by the executive departments under their purview and ensure the effective implementation and successful outcome of policies; and
- (i) to accept total responsibility for policy outcome and the delivery of services by the relevant executive departments.

Role of CS, FS and SJ

14. In accordance with the Basic Law, CS, FS and SJ in that order will assume the duties of the Chief Executive when the latter is not able to discharge his duties for a short period. They will play a key role in supporting the Chief Executive.

15. CS is the most senior among the three Secretaries of Department available to deputize for the Chief Executive. CS will assist the Chief Executive in supervising the policy bureaux as directed by him and play a key role in ensuring harmonization in policy formulation and implementation. This is particularly important in areas which cut across policy bureaux. CS will also cover specific priority areas of the Chief Executive's policy agenda. For example, currently CS is coordinating Guangdong-Hong Kong Cooperation and Mainland-Hong Kong Infrastructure Coordination. These priorities will evolve and change over time. CS will also be responsible for forging a closer and more effective working relationship with LegCo and for drawing up the Government's legislative programme. CS will continue to exercise statutory functions vested in him by law, such as those concerning the handling of appeals and certain public bodies.

16. Likewise, FS will assist the Chief Executive in supervising relevant policy bureaux and in ensuring harmonization in policy formulation and implementation in the financial, economic and employment areas. He will

also cover specific priority areas of the Chief Executive's policy agenda, for example, in leading the on-going discussion with the Central Government on "Closer Economic Partnership Arrangement". FS will continue to exercise relevant statutory functions, for example, in respect of public finance and monetary affairs. He will be responsible for the Government budget in accordance with the Chief Executive's policy agenda.

17. SJ will continue to be the principal legal adviser to the HKSARG. In accordance with the Basic Law, SJ oversees the Department of Justice and controls criminal prosecutions free from any interference.

Secretary for the Civil Service

18. We have given very careful consideration to whether or not the position of the Secretary for the Civil Service should be included in the accountability system. Under the accountability system, the Secretary for the Civil Service will have two major responsibilities: one is the Government's policy relating to the civil service, the other is the management of the civil service. Civil service policy is one of the most important amongst Government policies. The civil service is central to the successful governance of Hong Kong. It is the civil service which implements the Government's policy agenda and delivers services to the public. The Secretary for the Civil Service, like other principal officials, should be held fully accountable for his policy portfolio. As a member of the Executive Council, he will bring his civil service experience and perspective to bear on the decision making process in the Executive Council. We have therefore decided that he should be a principal official under the accountability system. During his appointment as Secretary for the Civil Service, he will be accountable for the outcome of civil service policies and management, in particular in relation to the upholding of the core values of integrity, efficiency, professionalism and meritocracy.

19. To underline the importance of the civil service, as a matter of policy the Secretary for the Civil Service under the accountability system shall be selected from within the civil service. As the Secretary for the Civil Service will come from the civil service, he would have a good understanding of the system and operation of the civil service. As a member of the Executive Council, he will be well placed to ensure that the interests and concerns of the civil service will be fully represented and taken into account before any major

decision is taken by Government. The civil service should be reassured in that they will continue to be managed by a principal official selected from within the civil service. The Secretary for the Civil Service will be employed on terms and conditions identical to those of other Directors of Bureau. But he retains his link with the civil service in that he does not have to leave the civil service permanently before taking up the appointment. Age permitting, he may return to the civil service at his original rank after his appointment as Secretary for the Civil Service. Whether or not he would do so is a matter for the individual, taking into account his age and other personal circumstances. He may exercise his rights to pension benefits in accordance with the law when he reaches retirement age.

Permanent Secretaries

20. Under the new arrangements, we see a need to retain civil servants at D8 rank in bureaux. They will work to their respective principal officials under the accountability system. They do not have to shoulder the responsibility for the performance of the bureaux in the same way as new Directors of Bureau will. But they will continue to abide by the highest standards of public service and will be subject to the Civil Service Regulations and disciplinary codes. They will support their Directors of Bureau in running the relevant bureaux and departments. Their public role will continue. They will continue to front up in public and to attend meetings of LegCo panels and committees and deal with the media. Officers holding these posts will be re-titled as Permanent Secretaries and play a pivotal role as detailed below:

- (a) to assist the principal officials in formulating, explaining and defending policies, securing support of the public and LegCo and answering LegCo questions, moving bills and taking part in motion debates in plenary sessions of LegCo. Subject to the direction of the relevant principal officials, permanent secretaries and other civil servants will explain and defend policies in public including at meetings of LegCo panels and committees;
- (b) to steer and coordinate with the executive departments falling within the respective portfolios of the principal officials and liaise with other concerned bureaux to achieve smooth, timely and effective implementation of the agreed policies and programmes;

- (c) to assist the principal officials in acquiring and deploying resources to support the implementation of policies and delivery of services;
- (d) to monitor the needs and aspirations of the community and having regard to the findings, to undertake timely review and to generate proposals for necessary changes to the established policies and services;
- (e) to uphold the reliability and professional standards in the delivery of services by the executive departments and agencies; and
- (f) to ensure proper use of financial resources within the bureau and manage civil servants and other staff in the bureau.

21. Given the increasing complexity of Government policies and programmes and the increased demands from LegCo and the public, we consider it appropriate to continue to pitch the rank of the most senior civil servants in most of the bureaux at D8 so that:

- (a) the most senior civil service posts in bureaux will be filled by officers with sufficient experience and authority to steer the delivery of services by executive departments and where necessary, to resolve the competing priorities among various executive departments or bureaux having regard to the overall objectives of the Administration in the relevant policy areas. They would have to front up for their principal officials at LegCo panels, bills committees and at public forums. This would relieve the principal officials from the internal coordination and administrative functions as well as certain LegCo duties, so that they can focus on their priority policy roles; and
- (b) the relativity between the civil servants in policy bureaux and those in the executive departments will be preserved. In this connection, it is relevant to note that Heads of Department are mainly ranked at D5 or D6 though there are two Heads of Department at the rank of D7 and one at the rank of D8.

22. That said, there is a case to review the staffing and structure of the policy bureaux including the number of D8 civil service posts in bureaux. Such a review is best entrusted to the new principal officials upon their assumption of office.

The Civil Service

23. The civil service will remain permanent, meritocratic and politically neutral. The system of appointment, posting, promotion and disciplinary action will remain unchanged. Public servants must be dedicated to their duties and be responsible to the HKSARG. As before, the civil service will be loyal to the Chief Executive and the principal officials of the day. Civil servants will continue to put forward clear and honest advice on policy options formulated to their best abilities. Once decisions have been taken by the Chief Executive in Council or by the principal officials, civil servants will support the decisions without question regardless of their own personal convictions, and will fully and faithfully implement decisions. They will assist the principal officials in explaining and defending the decisions so as to secure the support of the public and LegCo. They will not make known their own views in public and they should not give any indication that they hold differing views. The civil service will continue to abide by this principle of political neutrality.

The Bureaux

24. In amalgamating the various policy portfolios as part of the introduction of the accountability system, we have to balance the need to contain the number of senior positions under the new set up and to ensure that the scope of responsibility of each principal official is reasonable and manageable. We have given the matter careful consideration. There are numerous possible permutations. The arrangements now worked out have sought to place related portfolios under the same roof.

- (a) The Manpower portfolio has been placed together with Commerce & Industry, because the development of the economy and its various sectors has important bearings on employment opportunities. This grouping would enable the new Director of Bureau to better focus on the impact on jobs while promoting the development of various services and industries, attracting overseas

investments or assisting the small and medium enterprises. The Commerce & Industry portfolio and Manpower portfolio are also related in the sense that the procurement and training of manpower in different spheres have to be designed to match the expected growth in different sectors of the economy.

- (b) Economic Services and Information Technology have been placed under the portfolio of the same Director of Bureau, because both areas cover important economic infrastructure underpinning the growth of the Hong Kong economy.
- (c) The Treasury function and Financial Services respectively cover different aspects of financial management - the former being HKSARG's public finances, and the latter monetary affairs to ensure Hong Kong's continued growth as an international financial centre. The two fields are closely related.
- (d) The two portfolios of Health & Welfare and Environment & Food have been placed under the same Director of Bureau, because food hygiene and pollution control all affect the Health portfolio and healthy living. Placing these portfolios under one Director of Bureau will facilitate closer coordination.
- (e) The supply of land and the planning of future developments have an important bearing on housing developments, and vice versa. The two policy areas are closely related and have been placed under the same Director of Bureau.
- (f) Likewise, Transport and Works both concern the development of physical infrastructure, for example, in respect of highway and railway systems. Placing the two portfolios together will facilitate closer planning and coordination.

25. As regards the other four bureaux, namely Civil Service Bureau, Constitutional Affairs Bureau, Home Affairs Bureau and Security Bureau, they would each come under the purview of one Director of Bureau. This reflects the size of the portfolio and the fact that they do not form ready partners with other bureaux.

Chief Executive's Office

26. To complement the introduction of the accountability system, the Executive Council Secretariat will be transferred to the Chief Executive's Office. The position of Information Coordinator will be re-titled as Director of the Chief Executive's Office. The Director will oversee the running of the Executive Council Secretariat and continue to perform the duties of the Information Coordinator. The Director will not be a principal official. He will be appointed on non-civil service contract terms at a rank equivalent to D8.

Conflict of interest

27. As principal officials may have access to highly sensitive information including commercially sensitive information, principal officials under the accountability system will be required to declare:

- (a) any investment, shareholding or direct or indirect interest in any company or undertaking, and any interest in land or buildings in and outside Hong Kong. If the investment, shareholding or interest is held in the name of the principal official's spouse, children or other persons or companies, but are actually acquired on the principal official's account or in which the principal official has a beneficial interest, it should also be declared;
- (b) any investment transactions involving more than \$200,000; and
- (c) gift, advantage, payment, sponsorship or any material benefit received by the principal official or his spouse from any organisation, person or Government (other than the HKSARG) which in any way relates to his office as a principal official.

28. If there appears a conflict of interest between a principal official's investments or interests and his official duties, the Chief Executive may require the principal official to take the following measures:

- (a) to divest himself of all or any of the investments/interests;

- (b) to refrain from acquiring or disposing of the investments/interests;
- (c) to freeze any investment transaction for a specified period;
- (d) to place the investments/interests in a “blind” trust;
- (e) to refrain from handling cases with actual or potential conflict of interest; and
- (f) to take other actions as directed by the Chief Executive.

Moreover, during the term of office, principal officials will be prohibited from undertaking any service or task which may conflict with their official duties.

29. To address public concern about the possible risk of principal officials making use of their position in the Government to secure undue advantage for themselves or their families and friends, principal officials will be prohibited from:

- (a) using their official position or any information made available to them in their official capacity to benefit themselves or any other persons, financially or otherwise. They will also be prohibited against providing assistance, advice or information to any person if this will give the recipient an unfair advantage over any other persons. Such prohibition will continue to apply after the expiry or termination of the term of office; and
- (b) using, divulging or communicating to any person any sensitive information. This includes confidential or restricted information concerning the Government, a corporation or a property, information relating to the security of Hong Kong, and personal information of any person. Again such prohibition will continue to apply after the expiry or termination of the term of office.

30. To uphold public confidence in the office of the principal officials, former principal officials will be required to obtain the advice of a committee appointed for this purpose by the Chief Executive before taking up any employment or going into any business within one year after stepping down

from office. In tendering its advice, the committee will have regard to:

- (a) the nature of the proposed employment or business;
- (b) the nature and extent of the principal official's responsibilities in the Government vis-à-vis the activities of the proposed employment or business; and
- (c) whether the principal official's right to reasonably exploit his technical skills and experience will be unreasonably restricted.

The purpose is to avoid or minimise any perception that the Government's performance of its functions during the principal official's term of office or during the one year subsequent to that might have been compromised. The advice of the committee would be made public.

Transfer of Statutory Functions

31. The implementation of the accountability system involves splitting or merging of the portfolios of some of the existing bureau secretaries. In such cases, legislative amendments are required to transfer the respective statutory functions to the respective new principal officials. Where there is no such splitting or merging of portfolios, no legislative amendment will be required. The necessary legislative amendments will need to come into force on 1 July 2002.

32. The transfer of statutory functions is to be effected by way of a resolution made under section 54A of Cap. 1. Section 54A of Cap. 1 provides, inter alia, that LegCo may by resolution provide for the transfer to any public officer of any functions exercisable by virtue of any Ordinance by another public officer and that a resolution under this section may contain such incidental, consequential and supplemental provisions as may be necessary or expedient for the purpose of giving full effect to the resolution. Such a resolution is subject to positive vetting by LegCo. The Resolution at **Annex A** provides that the statutory functions currently exercisable by the named bureau secretaries be transferred to the named principal officials under the accountability system. In order to give full effect to the Resolution, such incidental, consequential and supplemental amendments as appropriate to the

relevant Ordinances are provided for in the Resolution.

33. One other legislative amendment consequential to the introduction of the accountability system relates to the public officers specified in Schedule 6 to Cap. 1. Section 62(1) of Cap. 1 provides, inter alia, that where any Ordinance confers a power or imposes a duty upon the Chief Executive to make any subsidiary legislation or appointment, give any direction, issue any order, authorise any thing or matter to be done, grant any exemption, remit any fee or penalty, or exercise any other power or perform any other duty, the exercise of such power or the performance of such duty may be signified under the hand of any public officer specified in Schedule 6. Section 62(3) provides that the Chief Executive in Council may, by order published in the Gazette, amend Schedule 6. A draft Order to be made under section 62(3) of Cap. 1 is at **Annex B**. The Order is subject to negative vetting by LegCo and will also need to come into force on 1 July 2002.

Relationship between bureaux and departments

Review of advisory and statutory bodies

34. In the course of public discussions on the accountability system, there have been suggestions that the working relationship between bureaux and departments should be reviewed. In particular, it has been suggested that a more streamlined structure would enhance efficiency and provide for better implementation of policies and delivery of services. There have also been suggestions that we should take the opportunity to review the roles and functions of various advisory and statutory bodies.

35. We agree that the role and functions of bureaux vis-à-vis departments as well as the role and functions of advisory and statutory bodies should be reviewed. However, we consider it imperative that these reviews be undertaken thoroughly and comprehensively. Given the impending appointment of the new principal officials, it is logical that they should individually spearhead this review in the light of the special circumstances of their policy areas. They will have an opportunity to acquire first hand experience of working with the bureaux and departments as well as advisory and statutory bodies under their purview and to gain a better understanding of the existing problems before deciding the best way of undertaking any major review of the existing arrangements.

36. The overall direction of the review on the role of bureaux vis-à-vis departments would be to streamline the structure and working relationship between the two, merging and integrating similar functions being performed by both, making better use of resources and enhancing the efficient and effective implementation of policy and delivery of services to the public. The review would be completed within 12 months. Together with the review of the staffing and structure of the policy bureaux including the number of D8 civil service posts in bureaux. We expect to effect sufficient savings to make the introduction of the accountability system a cost neutral exercise.

37. As regards the review on the role and functions of the advisory and statutory bodies, we aim to ensure the effectiveness of the advisory bodies, so that we will be able to tap the best talents and advice from a wide spectrum of the community and maintain a free flow of opinion and innovative ideas. In general, the statutory bodies should not derogate from the role, authority, responsibility and accountability of the principal officials.

Employment package

38. We have earlier commissioned Hay Group Limited to conduct a study and recommend an appropriate remuneration package for these principal officials. The Consultant's report is at **Annex C**.

39. The Consultant recommends that the median level of total remuneration of the 56 Chief Executive Officers (CEOs) covered in the survey (\$6,658,000 per annum) should be used as the reference point. We consider that the median level of total direct compensation (i.e. total remuneration of \$6,658,000 per annum less the elements relating to retirement benefits or end of contract gratuity payments or \$6,045,000 per annum) is a better reference point. The nature of employment as a principal official under the accountability system is such that it may be cut short at any time without cause or compensation. It would not be appropriate to think in terms of retirement benefits or end of contract gratuity payments. We note that the range of cash remuneration recommended by the Consultant (\$3,662,000 to \$3,995,000 per annum) represents a discount of 34% to 39% of the reference point of \$6,045,000 per annum. That seems appropriate given that these are appointments to the public service. We also note that the total weighted

average cost to the taxpayer of the incumbent substantive civil servants at Director of Bureau rank (D8), i.e. \$3,760,836 per annum falls within the range recommended by the Consultant. We have taken a political decision to cap at this level the total cost to the taxpayer for the Directors of Bureau under the accountability system. Minus \$12,000 per annum for MPF contribution and \$5,808 for medical and dental coverage a year, the cash remuneration comes to \$3,743,028 per annum or \$3,743,050 per annum when rounded to the nearest 50 dollars. This is between the 15th and 20th percentile of the total remuneration of the CEOs surveyed (\$3,484,000 per annum and \$4,477,000 per annum respectively).

40. The pay differential between Directors of Bureau, SJ, FS and CS is at present between 6% to 7%. The Consultant recommended a differential of up to 5%. We consider that a 3.5% differential would be appropriate. This will bring the total cost to the taxpayer for the CS under the accountability system to \$4,167,808 per annum (cash remuneration of \$4,150,000 per annum, MPF contribution of \$12,000 per annum and cost of medical and dental care of \$5,808 per annum) which is on par with the total cost to the taxpayer of the incumbent CS (cash remuneration of \$2,729,400 per annum and on-costs of \$1,436,148³ per annum, adding up to \$4,165,548 per annum). This is below the 20th percentile of the total remuneration of the CEOs surveyed (\$4,477,000 per annum).

41. On this basis, the employment package for principal officials under the accountability system will be as follows:

- (a) cash remuneration of:
 - (i) \$3,743,050¹ per annum (\$311,900¹ per month) for Directors of Bureau under the accountability system,
 - (ii) \$3,874,050¹ per annum (\$322,850¹ per month) for SJ [103.5% that of Directors of Bureau],
 - (iii) \$4,009,650¹ per annum (\$334,150¹ per month) for FS [103.5% that of SJ], and

³ Not including the cost of the official residence. Figure provided by Director of Accounting Services.

- (iv) \$4,150,000¹ per annum (\$345,850¹ per month) for CS [103.5% that of FS];
- (b) annual leave of 22 working days per annum, subject to a maximum accumulation limit of 22 days. Any accumulated leave will be forfeited upon resignation or termination of contract or at the end of term of contract;
- (c) medical and dental benefits on the same basis as those provided to civil servants;
- (d) MPF contribution by the Government; and
- (e) a car and driver for use at the discretion of the principal official.

42. The remuneration package for principal officials under the accountability system is so structured that there will be no housing allowance, no passage allowance, no children's education allowance, and no gratuity or retirement benefits. CS, FS and SJ will be assigned their respective official residences. There will not be any rental charge. They would no longer be civil servants. The civil service rules in respect of rental charges should not apply.

43. The employment package of principal officials under the accountability system will not be linked to civil service salaries. The fact is they are not civil servants. That said, their cash remuneration may over time become out of kilter with market movements. We therefore recommend that a review may be undertaken from time to time at the discretion of the Chief Executive.

44. In the event that civil service salaries are cut later this year, the remuneration of principal officials under the accountability system will be adjusted accordingly.

Administrative support

45. Having regard to the responsibilities and status of the Directors of

Bureau, we consider it appropriate to provide each of them with office staff comprising an administrative assistant (pitched at the equivalent rank of a D2 civil servant), a press secretary, a personal secretary and a personal chauffeur. (CS, FS and SJ have already been provided with a similar complement of administrative staff.) The positions can either be filled by civil servants or by way of direct appointment if the principal officials consider it more appropriate to do so. In the latter case, the appointments will be made on non-civil service contract terms and their tenure will be the same as that of the principal official concerned. In other words, they will depart as and when the principal official concerned leaves the Government. During their appointments in the Government, they will be subject to the civil service regulations and requirements.

Integrity checking and medical examination

46. Integrity checking and medical examination on prospective candidates would be conducted before they are nominated for appointment as principal officials.

Arrangements for civil servants appointed as principal officials under the accountability system

47. Serving civil servants appointed as principal officials will be given approval to retire if they have reached the earliest permissible retirement age under their respective pension schemes. They will receive their pension lump sum and their monthly pension payment will not be subject to suspension. If they have not reached the earliest permissible retirement age, they will be given approval to resign if they are on the New Pension Scheme, with immediate payment of their pension lump sums in accordance with a directive by the Chief Executive under section 11(2) of the Pension Benefits Ordinance. Their monthly pension will be suspended until they have reached their earliest permissible age of retirement. But the suspension will no longer apply once they have stepped down from their principal official positions and are no longer in the public service even before they have reached their earliest permissible retirement age.

48. To provide a clean break from the civil service, the retired/resigned civil servants will be given approval to encash all their accumulated leave

balance and leave passage accounts on a no-gain no-loss basis. Apart from these arrangements to facilitate the implementation of the accountability system, there will not be any additional compensation.

FINANCIAL AND STAFFING IMPLICATIONS

49. Subject to the approval of the Finance Committee, additional expenditure of about \$42 million will be incurred to meet the costs of the 14 new principal official positions (CS, FS, SJ and 11 Directors of Bureau), partially offset by the deletion of the three civil service posts of CS, FS and SJ. We have earmarked sufficient funds for such additional expenditure.

50. As regards other expenditure relating to the implementation of the accountability system, we will not seek additional funds. Instead, we will re-deploy existing resources:

- (a) to provide a small complement of staff (one administrative assistant, one press secretary, one personal secretary and one chauffeur) for each Director of Bureau under the accountability system (CS, FS and SJ will continue to be supported by their present staff);
- (b) to provide the Directors of Bureau with the necessary recurrent expenses (e.g. for overseas duty visit, entertainment etc);
- (c) to provide office accommodation (including furniture and refurbishment) for the Directors of Bureau and their staff; and
- (d) to provide saloon cars to the Directors of Bureau.

51. The provisions in paragraph 50 above will entail re-ordering priorities, deleting posts in policy bureaux and executive departments, re-allocating cars currently assigned to senior civil servants and economizing on recurrent departmental expenses.