

ITEM FOR FINANCE COMMITTEE

**HEAD 142 - GOVERNMENT SECRETARIAT :
OFFICES OF THE CHIEF SECRETARY FOR
ADMINISTRATION AND
THE FINANCIAL SECRETARY**

Subhead 108 Remuneration for special appointments

**HEAD 143 - GOVERNMENT SECRETARIAT :
CIVIL SERVICE BUREAU**

**HEAD 152 - GOVERNMENT SECRETARIAT :
COMMERCE AND INDUSTRY BUREAU**

**HEAD 144 - GOVERNMENT SECRETARIAT :
CONSTITUTIONAL AFFAIRS BUREAU**

**HEAD 145 - GOVERNMENT SECRETARIAT :
ECONOMIC SERVICES BUREAU**

**HEAD 146 - GOVERNMENT SECRETARIAT :
EDUCATION AND MANPOWER BUREAU**

**HEAD 154 - GOVERNMENT SECRETARIAT :
ENVIRONMENT AND FOOD BUREAU**

**HEAD 147 - GOVERNMENT SECRETARIAT :
FINANCE BUREAU**

**HEAD 148 - GOVERNMENT SECRETARIAT :
FINANCIAL SERVICES BUREAU**

**HEAD 149 - GOVERNMENT SECRETARIAT :
HEALTH AND WELFARE BUREAU**

**HEAD 53 - GOVERNMENT SECRETARIAT :
HOME AFFAIRS BUREAU**

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**HEAD 96 - GOVERNMENT SECRETARIAT :
HONG KONG ECONOMIC AND TRADE OFFICES**

**HEAD 150 - GOVERNMENT SECRETARIAT :
HOUSING BUREAU**

**HEAD 55 - GOVERNMENT SECRETARIAT :
INFORMATION TECHNOLOGY AND
BROADCASTING BUREAU**

**HEAD 56 - GOVERNMENT SECRETARIAT :
PLANNING AND LANDS BUREAU AND
WORKS BUREAU**

**HEAD 151 - GOVERNMENT SECRETARIAT :
SECURITY BUREAU**

**HEAD 153 - GOVERNMENT SECRETARIAT :
TRANSPORT BUREAU**

**HEAD 46 - GENERAL EXPENSES OF THE CIVIL SERVICE
Various subheads**

**HEAD 106 - MISCELLANEOUS SERVICES
Various subheads**

**HEAD 176 - SUBVENTIONS : MISCELLANEOUS
Various subheads**

**HEAD 177 - SUBVENTIONS : NON-DEPARTMENTAL PUBLIC BODIES
Various subheads**

HEAD 184 - TRANSFERS TO FUNDS

For the purpose of implementing the accountability system for principal officials with effect from 1 July 2002, Members are invited to approve -

/(a)

- (a) the remuneration packages of the 14 principal officials under the accountability system, with adjustment in accordance with the reduction in civil service pay on 1 October 2002 if implemented;
- (b) a supplementary provision of \$37.642 million in 2002-03 under Head 142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary Subhead 108 Remuneration for special appointments; and
- (c) the change in controlling officers from the existing bureau secretaries to the permanent secretaries and in the titles of some Heads and Subheads in the 2002-03 Estimates of Expenditure.

PROBLEM

We need to provide funds for the remuneration of those principal officials under the accountability system and to effect other necessary changes to the 2002-03 Estimates of Expenditure upon implementation of the accountability system.

PROPOSAL

2. We propose -

- (a) to introduce new remuneration packages for the 14 principal officials under the accountability system with effect from 1 July 2002;

/(b)

- (b) to adjust these principal officials' remuneration packages if civil service pay is reduced on 1 October 2002, in accordance with the rate of reduction of directorate civil service pay;
- (c) to provide a supplementary provision of \$37.642 million to Head 142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary Subhead 108 for the remuneration of the Chief Secretary for Administration (CS), the Financial Secretary (FS) and 11 Directors of Bureau; and
- (d) to change the controlling officers from the existing bureau secretaries to the new permanent secretaries and the titles of some of the Heads and Subheads in the 2002-03 Estimates of Expenditure with effect from 1 July 2002.

JUSTIFICATION

3. On 17 April 2002, the Chief Executive announced at the Legislative Council the key elements of the accountability system for principal officials. At the meeting on 29 May 2002, the Legislative Council (LegCo) passed a motion to support the system. On 6 June 2002, the Establishment Subcommittee (ESC) of the Finance Committee (FC) endorsed the proposals in EC(2002-03)2 for, among other things, the creation of 14 non-civil service positions for principal officials under the accountability system, offset by the deletion of the three civil service directorate posts of the CS, FS and the Secretary for Justice (SJ).

Remuneration package of the 14 principal officials

4. Principal officials under the accountability system will not be civil servants, and will be employed on other than civil service terms. Their term of employment will not exceed that of the Chief Executive who nominates them for appointment, and subject to the relevant provisions of the Basic Law their employment contracts may be terminated at any time.

5. Their remuneration package comprises -

- (i) cash remuneration -
 - \$345,850 per month for CS,
 - \$334,150 per month for FS,
 - \$322,850 per month for SJ, and
 - \$311,900 per month for each Director of Bureau;

/(ii)

- (ii) annual leave of 22 working days;
- (iii) medical and dental benefits on the same basis as those provided to civil servants during the term of employment;
- (iv) Mandatory Provident Fund (MPF) contribution by the Government; and
- (v) a car and driver for use at the discretion of each of the principal officials.

6. The remuneration package is so structured that there are 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 and will continue to be entitled to the non-accountable entertainment allowance. There will not be any rental charge.

Remuneration level for the 14 principal officials

7. We have taken a political decision to cap the total cost to the taxpayer for the Directors of Bureau under the accountability system at the level of the average cost to the taxpayer of the incumbent substantive civil servants at Director of Bureau rank (D8), i.e. \$3,760,836 per annum. The cash remuneration per annum to be received by the Directors of Bureau under the accountability system is \$3,742,800 (\$311,900 x 12). Add to this \$12,000 per annum for MPF contribution and an amount of \$5,808 per annum deemed to be the cost of medical and dental services, the total remuneration package will come to \$3,760,608 per annum. This is between the 15th and 20th percentile of the remuneration of the 56 Chief Executive Offices surveyed in a consultancy study we commissioned earlier.

8. We consider that a 3.5% differential between the monthly salaries of the Directors of Bureau, SJ, FS, and CS would be appropriate. This will bring the cost¹ of the remuneration package for the SJ, FS and CS under the accountability system to \$3,892,008, \$4,027,608 and \$4,168,008 per annum respectively.

/Adjustment

¹ Total cost = monthly salary x 12 + \$12,000 for MPF contribution + \$5,808 for medical and dental services

Adjustment mechanism

9. The principal officials under the accountability system are not civil servants and their remuneration packages will not be linked to civil service salaries. That said, we propose that the cash remuneration of these principal officials will be adjusted accordingly if civil service pay is reduced later this year.

10. In future, the Chief Executive may at his discretion order a review, from time to time, of the remuneration packages of the principal officials under the accountability system. We will seek the FC's approval for adjustments to the remuneration packages.

Change in controlling officers and the titles of some Heads and Subheads of expenditure

11. At present, all bureau secretaries except the Secretary for Planning and Lands² are controlling officers accountable for specific Heads and Subheads of expenditure. Controlling officers are responsible and accountable for all expenditure from any Head or Subhead for which they are the controlling officers and are responsible to ensure compliance with the Public Finance Ordinance and the internal rules on the disbursement of funds. Under the accountability system, the existing D8 civil service posts in bureaux will be retained and re-titled as permanent secretaries. For reasons of continuity and expertise in respect of the relevant rules and regulations, we consider it is more appropriate for the permanent secretaries, rather than the Directors of Bureau under the accountability system, to be the controlling officers.

12. Accordingly we propose to change the controlling officers for the relevant Heads and Subheads in the 2002-03 Estimates of Expenditure from the existing bureau secretaries to the permanent secretaries. To reflect the change in the titles of some of the policy bureaux, we also propose to change the titles of the relevant Heads of expenditure. The list setting out the changes in controlling officers and titles of the relevant Heads and Subheads of expenditure is at the

Encl.

Enclosure.

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² Provisions for the current Planning and Lands Bureau are under Head 56 whose controlling officer is the Secretary for Works.

13. The Enclosure covers all the necessary changes required for the 2002-03 Estimates of Expenditure. The less material changes will be reflected in the 2003-04 draft Estimates, which will fully align provisions and control of resources with the new division of portfolios under the accountability system.

FINANCIAL IMPLICATIONS

14. As a transitional arrangement in 2002-03, we propose to put the provisions for all principal official positions under the accountability system, except SJ, under Head 142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary. Subject to Members' approval, the remuneration of these principal officials, except SJ, will be charged to Head 142 Subhead 108 and a supplementary provision of \$37.642 million under the Subhead will be required in 2002-03. The supplementary provision will be met partly by transferring \$4.508 million (being the salaries and non-accountable entertainment allowance of the current civil service CS and FS posts) from Head 142 Subhead 001 Salaries and partly from deleting an amount of \$33.133 million from Head 106 Miscellaneous Services Subhead 251 Additional commitments.

15. The non-civil service position for SJ, like the civil service post of SJ, will continue to be included under Head 92 Department of Justice. For the purpose of transparency, we will create under delegated authority a new Subhead 108 Remuneration for special appointments under Head 92 to pay for the expenses of the non-civil service position of SJ. A supplementary provision of \$3.064 million will be required under Head 92 Subhead 108. It will be met partly by transferring the provision of \$1.973 million under Head 92 Subhead 001 for the civil service SJ post and partly from deleting an amount of \$1.090 million from Head 106 Miscellaneous Services Subhead 251 Additional commitments. As the supplementary provision required is less than \$10 million, it will also be dealt with under delegated authority.

16. If the proposed civil service pay cut of 4.42% effective from 1 October 2002 is implemented, the supplementary provision required for Head 142 Subhead 108 will be \$1.090 million less, while that for Head 92 Subhead 108 will be \$85,620 less. If the pay cut is implemented, we shall reserve these amounts under the two subheads.

17. The proposed changes in controlling officers and the titles of the Heads and Subheads in the 2002-03 Estimates of Expenditure have no additional financial implications.

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18. On assuming office, the principal officials will review the working relationship between their bureaux and executive departments within their respective purview. The overall direction will 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 policies and delivery of services to the public. We expect to effect sufficient savings within 12 months to make the introduction of the accountability system a cost neutral exercise.

BACKGROUND INFORMATION

19. The Chief Executive announced at the LegCo on 17 April 2002 the key elements of the accountability system for principal officials. The objectives of the system 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.

20. The Administration has since worked closely with the LegCo Subcommittee to Study the Proposed Accountability System for Principal Officials and Related Issues (the Subcommittee) with a view to implementing the system from 1 July 2002. The Subcommittee has so far met for more than 50 hours to discuss various aspects of the accountability system. A total of 128 organizations and individuals have put forward their views to the Subcommittee. The majority of them are in support of the implementation of the accountability system.

21. On 6 June 2002, ESC endorsed the proposal in EC(2002-03)2 for, among other things, the creation of 14 non-civil service positions for principal officials under the accountability system, offset by the deletion of the three civil service directorate posts of the CS, FS and SJ. ESC's recommendation will be submitted for Member's approval at the meeting on 14 June 2002.

**Change in Controlling Officers and
the Titles of Heads and Subheads of Expenditure
in the General Revenue Account of the 2002-03 Estimates**

HEAD	HEAD OF EXPENDITURE		CONTROLLING OFFICER	
	Prior to 1 July 2002	From 1 July 2002	Prior to 1 July 2002	From 1 July 2002
143	Government Secretariat: Civil Service Bureau		Secretary for the Civil Service	Permanent Secretary for the Civil Service
152	Government Secretariat: Commerce and Industry Bureau	Government Secretariat: Commerce, Industry and Technology Bureau (Commerce and Industry)	Secretary for Commerce and Industry	Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry)
96	Government Secretariat: Hong Kong Economic and Trade Offices		Secretary for Commerce and Industry	Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry)
55	Government Secretariat: Information Technology and Broadcasting Bureau	Government Secretariat: Commerce, Industry and Technology Bureau (Information Technology and Broadcasting)	Secretary for Information Technology and Broadcasting	Permanent Secretary for Commerce, Industry and Technology (Information Technology and Broadcasting)
144	Government Secretariat: Constitutional Affairs Bureau		Secretary for Constitutional Affairs	Permanent Secretary for Constitutional Affairs

HEAD	HEAD OF EXPENDITURE		CONTROLLING OFFICER	
	Prior to 1 July 2002	From 1 July 2002	Prior to 1 July 2002	From 1 July 2002
145	Government Secretariat: Economic Services Bureau	Government Secretariat: Economic Development and Labour Bureau (Economic Development)	Secretary for Economic Services	Permanent Secretary for Economic Development and Labour (Economic Development)
146	Government Secretariat: Education and Manpower Bureau	Government Secretariat: Education and Manpower Bureau and Economic Development and Labour Bureau (Labour)	Secretary for Education and Manpower	Permanent Secretary for Education and Manpower
147	Government Secretariat: Finance Bureau	Government Secretariat: Financial Services and the Treasury Bureau (Treasury)	Secretary for Treasury	Permanent Secretary for Financial Services and the Treasury (Treasury)
148	Government Secretariat: Financial Services Bureau	Government Secretariat: Financial Services and the Treasury Bureau (Financial Services)	Secretary for Financial Services	Permanent Secretary for Financial Services and the Treasury (Financial Services)
149	Government Secretariat: Health and Welfare Bureau	Government Secretariat: Health, Welfare and Food Bureau	Secretary for Health and Welfare	Permanent Secretary for Health, Welfare and Food
154	Government Secretariat: Environment and Food Bureau	Government Secretariat: Environment, Transport and Works Bureau (Environment) and Health, Welfare and Food Bureau	Secretary for the Environment and Food	Permanent Secretary for the Environment, Transport and Works (Environment)

HEAD	HEAD OF EXPENDITURE		CONTROLLING OFFICER	
	Prior to 1 July 2002	From 1 July 2002	Prior to 1 July 2002	From 1 July 2002
153	Government Secretariat: Transport Bureau	Government Secretariat: Environment, Transport and Works Bureau (Transport and Works)	Secretary for Transport	Permanent Secretary for the Environment, Transport and Works (Transport and Works)
56	Government Secretariat: Planning and Lands Bureau and Works Bureau	Government Secretariat: Housing, Planning and Lands Bureau (Planning and Lands) and Environment, Transport and Works Bureau (Transport and Works)	Secretary for Works	Permanent Secretary for the Environment, Transport and Works (Transport and Works)
150	Government Secretariat: Housing Bureau	Government Secretariat: Housing, Planning and Lands Bureau (Housing)	Secretary for Housing	Permanent Secretary for Housing, Planning and Lands (Housing)
53	Government Secretariat: Home Affairs Bureau		Secretary for Home Affairs	Permanent Secretary for Home Affairs
151	Government Secretariat: Security Bureau		Secretary for Security	Permanent Secretary for Security

HEAD	HEAD OF EXPENDITURE		CONTROLLING OFFICER	
	Prior to 1 July 2002	From 1 July 2002	Prior to 1 July 2002	From 1 July 2002
46	General Expenses of the Civil Service		Secretary for the Civil Service (Subheads 001, 003, 010,011,023, 024, 025, 027, 028, and 037)	Permanent Secretary for the Civil Service (Subheads 001, 003, 010,011,023, 024, 025, 027, 028, and 037)
106	Miscellaneous services		<p>Secretary for the Treasury (Subheads 182,251,281,284 and 789)</p> <p>Secretary for Commerce and Industry (Subhead 262)</p> <p>Secretary for the Civil Service (Subheads 769 and 777)</p> <p>Secretary for Health and Welfare (Subheads 238,713 and 778)</p>	<p>Permanent Secretary for Financial Services and the Treasury (Treasury) (Subheads 182,251,281,284 and 789)</p> <p>Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry) (Subhead 262)</p> <p>Permanent Secretary for the Civil Service (Subheads 769 and 777)</p> <p>Permanent Secretary for Health, Welfare and Food (Subheads 238,713 and 778)</p>

HEAD	HEAD OF EXPENDITURE		CONTROLLING OFFICER	
	Prior to 1 July 2002	From 1 July 2002	Prior to 1 July 2002	From 1 July 2002
176	Subventions : Miscellaneous		<p>Secretary for Commerce and Industry (Subheads 437, 461, 457 and 420)</p> <p>Secretary for Security (Subhead 462)</p> <p>Secretary for Health and Welfare (Subheads 521, 528, 414 and 864)</p> <p>Secretary for Education and Manpower (Subhead 527)</p> <p>Secretary for Home Affairs (Subhead 475)</p>	<p>Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry) (Subheads 437, 461, 457 and 420)</p> <p>Permanent Secretary for Security (Subhead 462)</p> <p>Permanent Secretary for Health, Welfare and Food (Subheads 521, 528, 414 and 864)</p> <p>Permanent Secretary for Education and Manpower (Subhead 527)</p> <p>Permanent Secretary for Home Affairs (Subhead 475)</p>
177	Subventions: Non-departmental Public Bodies		Secretary for Economic Services (Subheads 429, 443, 870 and 955)	Permanent Secretary for Economic Development and Labour (Economic Development) (Subheads 429, 443, 870 and 955)

HEAD	HEAD OF EXPENDITURE		CONTROLLING OFFICER	
	Prior to 1 July 2002	From 1 July 2002	Prior to 1 July 2002	From 1 July 2002
177 (cont'd)	Subventions: Non-departmental Public Bodies		Secretary for Commerce and Industry (Subhead 444)	Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry) (Subhead 444)
			Secretary for Education and Manpower (Subheads 520, 537, 871, and 976)	Permanent Secretary for Education and Manpower (Subheads 520, 537, 871, and 976)
			Secretary for Health and Welfare (Subheads 514, 539, 899, 940 and 979)	Permanent Secretary for Health, Welfare and Food (Subheads 514, 539, 899, 940 and 979)
			Secretary for Home Affairs (Subheads 415, 459, 523, 524, 525, 916, 942 and 973)	Permanent Secretary for Home Affairs (Subheads 415, 459, 523, 524, 525, 916, 942 and 973)
184	Transfers to Funds		Secretary for the Treasury	Permanent Secretary for Financial Services and the Treasury (Treasury)

