

立法會
Legislative Council

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by the Administration)

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Legislative Council
Panel on Public Service

Minutes of special meeting
held on Wednesday, 3 July 2002 at 8:30 am
in the Chamber of the Legislative Council Building

Members present : Hon TAM Yiu-chung, GBS, JP (Chairman)
Hon LI Fung-ying, JP (Deputy Chairman)
Hon LEE Cheuk-yan
Hon CHEUNG Man-kwong
Hon HUI Cheung-ching, JP
Hon CHAN Kwok-keung
Hon Bernard CHAN
Hon Howard YOUNG, JP
Hon Michael MAK Kwok-fung
Hon Albert CHAN Wai-yip
Hon LEUNG Fu-wah, MH, JP

Members attending : Dr Hon LUI Ming-wah, JP
Hon CHAN Yuen-han, JP
Hon Emily LAU Wai-hing, JP

Member absent : Hon Andrew WONG Wang-fat, JP

Public officers attending : Mr Andrew WONG
Director of Administration

Ms CHANG King-yiu
Deputy Director of Administration (1)

Mr Sidney CHAN
Assistant Director of Administration (Review)

Clerk in attendance : Miss Salumi CHAN
Chief Assistant Secretary (1)5

Staff in attendance : Ms Rosalind MA
Senior Assistant Secretary (1)9

Action

- I. Review of remuneration of senior executives of statutory and other bodies**
(CSO/ADM CR3/1136/02 — Legislative Council Brief on “Review of Remuneration of Senior Executives of Statutory and Other Bodies” issued by the Administration Wing (with the consultant's Final Report)
- LC Paper No. CB(1)2150/01-02(01) — Statement made by the Chief Secretary for Administration at the Council meeting on 26 June 2002)

Briefing by the Administration

At the Chairman’s invitation, the Director of Administration (D of Adm) briefed members on the Review of Remuneration of Senior Executives of Statutory and Other Bodies. He advised that in response to increasing public concerns about the perceived lack of transparency and impartiality in the remuneration policies governing executives in some major public bodies, the Chief Secretary for Administration (CS) had announced on 4 January 2002 that the Government would commission a consultancy study on the remuneration of the senior executives of selected statutory and other bodies. The main tasks of the consultant were as follows:

- (a) To examine whether the existing remuneration packages of the senior executives in the selected bodies were in line with those holding comparable positions in the private sector;
- (b) To put forward recommended remuneration packages for senior executives of each of the selected bodies, making reference to current practices applicable to those holding comparable positions in the analogue companies;

- (c) To formulate some guidelines on remuneration policy and practices for each of the selected bodies;
- (d) To draw up an effective adjustment mechanism to enable the community to monitor the long-term comparability between the remuneration packages of the selected bodies with their private sector counterparts; and
- (e) To put up a general framework for regular “disclosure” of the remuneration arrangements of the selected bodies to the responsible Directors of Bureaux and the community in general.

2. D of Adm advised that the consultancy study covered 11 bodies and two of their subsidiaries. The positions under study included mainly the top three tiers of senior executives in the 11 bodies and the chief executive officers (CEOs) of the two subsidiary companies. The bodies were selected for review because all of them had to compete with the private sector for managerial staff with special experience and expertise. Many of them were also required to operate under prudent commercial principles. As regards the methodology of the study, the consultant had invited about 160 private firms in Hong Kong to participate in a survey on the remuneration of their senior executives. Data were subsequently collected from about 80 of them which agreed to take part in the study. The number of private firms chosen for comparison with each of the selected bodies varied from ten to 25.

3. D of Adm pointed out that as the Government was separately reviewing the role, mission and range of services of the Hong Kong Productivity Council (HKPC), details of the consultant's findings pertaining to HKPC were not included in the consultant's Final Report. Hence, the Final Report covered only 10 selected bodies and two of their subsidiaries. A summary of the consultant's proposed remuneration for the senior executives of the 10 selected bodies was set out in Annex C to the LegCo Brief. On the annual or regular adjustment of remuneration, the consultant proposed that each of the selected bodies should designate a group of comparison companies and track their levels and trends following a consistent and defensible methodology. The consultant also proposed that each governing board of a selected body should designate a committee to deal with its remuneration policies and arrangements. As regards disclosure arrangements, the consultant proposed that in the long run, details of the remuneration of the chief executive of a selected body should be made public, as well as the aggregate information on the remuneration for the next two levels of senior executives. At a minimum, all bodies should comply with the Companies Ordinance and disclose total remuneration in ranges, as required in the annual reports of companies listed in the Hong Kong Stock Exchange.

4. D of Adm further pointed out that while the Administration considered the consultant's recommendations reasonable, it recognized the important role played by the governing boards or committees of the selected bodies in overseeing the propriety and transparency of the remuneration policies and arrangements, and formulating their recommended remuneration packages to the relevant authority for approval. On the way

forward, the Administration would invite the respective governing boards or committees of the selected bodies to consider adopting the consultant's recommendations and to report to the responsible Directors of Bureaux the outcome of their deliberations and the implementation of the consultant's relevant recommendations in six months.

Discussion

Current remuneration packages of senior executives in the selected bodies

5. In response to the Chairman, D of Adm advised that although the consultant had obtained information on the current remuneration packages of senior executives in the selected bodies, such information was not included in its Final Report because the publication of such information would require the consent of the officers concerned. To address public concern about the propriety of the remuneration packages for the senior executives in the selected bodies, the consultant had provided at Annex C to the LegCo Brief the median level of remuneration of the comparison companies, the prevailing market mix, the adjustment for qualitative factors and the proposed remuneration levels for the top three tiers of senior executives.

6. Ms Emily LAU expressed dissatisfaction that the current remuneration packages of the senior executives in the selected bodies were not included in the consultant's Final Report. She considered that in the absence of such important information, the data provided at Annex C to the LegCo Brief were meaningless and the purpose of conducting the consultancy study, which was to address public concerns about the lack of transparency and impartiality in the remuneration policies governing executives in major public bodies, was defeated. The problems of lack of transparency and impartiality remained unresolved. The Chairman and Mr CHEUNG Man-kwong shared her view. Mr CHEUNG considered it ridiculous that such important information was not included in the consultant's Final Report. Ms LAU sought clarification from the Administration on whether the consultant had attempted to obtain the consent of the individual officers concerned for the disclosure of their remuneration packages. If the consultant had not done so, it was unfair to the officers concerned, as the lack of transparency in their remuneration packages had resulted in unnecessary speculations on their remuneration levels, which might be higher or lower than the actual levels.

7. D of Adm explained that the consultant had failed to obtain the consent of all the selected bodies for the disclosure of the remuneration packages concerned. The consultant therefore could not include the information in the report. D of Adm pointed out that one of the major purposes of the consultancy study was to establish guidelines for setting reasonable and competitive remuneration packages for the selected bodies. In this connection, the objective information provided at Annex C to the LegCo Brief could serve as useful reference for the governing boards or committees of the selected bodies in deciding the appropriate remuneration levels and mix of their senior executives. D of Adm further pointed out that to address the public concerns about transparency and disclosure arrangements, the Administration had accepted the consultant's recommendations that the selected bodies should, from this year onwards, follow the

practice of the companies listed in the Hong Kong Stock Exchange to disclose total remuneration of senior executives in ranges, and from next year onwards, disclose the full remuneration packages of their chief executives and the aggregate information on the remuneration of the second and third tier executives.

8. Ms Emily LAU maintained her view that it was essential to make public the information on the current remuneration packages of the senior executives in the selected bodies. She requested the Administration to brief the Panel after six months on the reports of the governing boards or committees of the selected bodies to the responsible Directors of Bureaux, as well as the current remuneration packages of the senior executives in the selected bodies, subject to the consent of the officers concerned. D of Adm agreed to follow up with the relevant governing boards or committees.

Admin

Implementation of the consultant's recommendations

9. Mr Howard YOUNG and Mr HUI Cheung-ching asked for the Administration's proposed measures for the implementation of the consultant's recommendations. D of Adm advised that it would be for the governing boards or committees of the selected bodies to decide on the implementation of the consultant's recommendations. The Administration was confident that they would make reference to the findings of the consultancy study and consider the recommendations seriously. Mr CHEUNG Man-kwong considered it inappropriate to leave the matter entirely to the governing boards or committees of the selected bodies. He sought clarification on the Administration's role in the implementation of the recommendations, and whether the Government representatives in the relevant governing boards or committees would take the initiative to request the boards or committees to implement the recommendations, such as the proposed 10% reduction in the remuneration level of the Chief Executive of the Hong Kong Monetary Authority (CE/HKMA) and the Chairman of the Securities and Futures Commission (Chairman/SFC).

10. D of Adm clarified that the consultant had not recommended the reduction in the remuneration level of CE/HKMA or Chairman/SFC. Rather, the consultant's proposal was to make a downward adjustment of 10% to the median of the total remuneration derived from the data of the private sector comparison companies after taking into account the qualitative factors pertaining to the two positions, such as recognition, honour, respect, and exposure to public scrutiny. D of Adm also explained that as a majority of the selected bodies were statutory bodies governed by independent boards or committees, it would not be appropriate for the Administration to prescribe or mandate the remuneration levels of their senior executives. As a matter of fact, the governing boards or committees knew better than the Administration as to the qualification, experience, competence and performance of their senior executives. They were therefore in a better position to make a fair and proper judgement on remuneration issues pertaining to their senior staff.

11. Ms Emily LAU criticized the presentation of the LegCo Brief and the consultancy report as misleading, because only the median and recommended remuneration were provided but not the actual current remuneration packages. The Chairman shared her view and commented that the information provided could be easily misinterpreted unless studied in detail.

12. Mr CHEUNG Man-kwong further enquired about whether the Administration would request CE/HKMA to adjust his remuneration packages in accordance with the recommended level, i.e. \$7.25 million as set out in Annex C to the LegCo Brief. D of Adm said that the recommended remuneration mix and levels should not be considered as the absolute levels to be followed. If the governing board or committee of a selected body considered that the background, capability or performance of a particular individual serving as the chief executive should justify a higher or lower remuneration than the market median, it could offer him or her a correspondingly different package from what the consultant had recommended. For the second and third tier positions, the Administration generally considered variations within the range of plus or minus 25% from the consultant's recommended remuneration levels acceptable, particularly to take account of the diverse functions and responsibilities that individual division heads might carry out at these levels. D of Adm also pointed out that the Government had no intention to interfere with the existing contractual arrangements between the selected bodies and their senior executives. Any new guidelines or recommended packages should not affect the current employment contracts, and should only take effect upon renewal of existing contracts or for new recruits.

13. The Chairman, Mr CHEUNG Man-kwong and Ms Emily LAU asked for the contract expiry dates of the top three tiers of senior executives in the selected bodies. D of Adm undertook to approach these bodies to gather the information.

Admin

14. Mr CHEUNG Man-kwong opined that the findings and recommendations of the consultancy study would not serve any meaningful purpose if the governing boards or committees of the selected bodies were given the discretion to exercise flexibility in the remuneration levels without following the recommended levels. D of Adm responded that unless a very detailed post-by-post comparison study was conducted, the consultant's recommendations should be seen as an authoritative reference tool rather than prescriptive or mandatory provisions. He pointed out that the findings of the consultancy study revealed that 70% of the CEO positions under review had their current remuneration levels within a range of 15% of the market medians and similar findings applied to the second and third tier executives covered by the study in general. In the circumstance, assumptions that the senior executives in the selected bodies were grossly overpaid could not be justified. Nevertheless, the Administration had invited the governing boards and committees of these bodies to report the outcome of their deliberations on and implementation of the recommendations to the responsible Directors of Bureaux in six months.

15. Mr Howard YOUNG pointed out that if the selected bodies decided to implement some or all of the recommendations, it would result in changes in their emolument expenses. He asked whether the Administration had any plan for adjusting the amount of subvention provided to the selected bodies to tie in with such changes. D of Adm pointed out that only a few of the selected bodies were receiving recurrent subvention from the Government. Any adjustments to the remuneration packages of their top three tiers of senior executives would involve a relatively small amount of money. The Administration had no plan at the present stage to adjust the amount of recurrent subvention provided to the selected bodies accordingly.

Reliability of the findings of the consultancy study

16. Mr LEUNG Fu-wah expressed concern about the components included for deriving the market median and doubted whether significant components, such as special fringe benefits enjoyed by expatriates, had been taken into account. D of Adm explained that all major components of the remuneration packages of senior executives in the comparison companies, including basic salary, allowances, fixed remuneration, short-term and long-term incentives had been taken into account in deciding the median remuneration of the comparison companies. Nevertheless, the consultant did not attempt to compare the remuneration packages of local or expatriate executives on the understanding that the remuneration packages of senior executives should be set at a level that could attract both local and overseas talent.

17. In response to Mr LEUNG Fu-wah's further enquiry about the criteria for selecting the comparison groups for the selected bodies, D of Adm said that the consultant exercised his professional judgement in the selection of private companies for forming the comparison groups for each of the selected bodies. In the selection process, the consultant took into consideration the talent pool from which the body drew its executive talents; the industry in which the body operated, or the characteristics of the operating environment of the business; and the relevance of general executive and managerial capabilities, where specific or direct comparison companies could not be identified. The consultant was very experienced in pay research and the methodology adopted was scientific. The findings of the study should serve as useful reference for the selected bodies.

18. Mr Albert CHAN queried the reliability of the consultant's findings, in particular, the "Median Remuneration for Comparison Group of Kowloon-Canton Railway Corporation (KCRC)" in Table 10(a) of the consultant's Final Report. He doubted why the median remuneration in respect of "Long-term Incentives" for CEO and Director was \$0, while that for the Senior Director was \$119,000. He considered the findings unreasonable and illogical, and sought the Administration's view on whether such findings should be seen as useful reference for the selected bodies.

19. In response, D of Adm said that the consultant had chosen to use the median, which was the middle value in a set of data arranged in order of size, as the benchmark for measuring market remuneration practices because this was less sensitive to the impact of any extreme remuneration policies that might be adopted by one or two comparison companies at the upper or lower end. The medians of “Long-term Incentives” for CEO, Senior Director and Director shown in Table 10(a) of the consultant's Final Report reflected the middle value of the data collected under this remuneration component from comparable posts in the comparison companies pertinent to KCRC. As the private sector offered a wide variety of remuneration policies and practices, it was not uncommon that remuneration packages of some senior executives did not contain the component of “Long-term Incentives”. D of Adm further explained that an objective basis for assessment should be established before judgement could be made on whether the remuneration packages of senior executives in the selected bodies were set at reasonable levels. In this regard, the market medians were considered to have provided useful and objective reference for the review of remuneration packages of senior executives in the selected bodies.

20. Mr Albert CHAN maintained his view that the findings in relation to “Long-term incentives” were illogical and requested that written explanation be sought from the consultant in the derivation of the data listed in Table 10(a) of the consultant's Final Report. At Mr CHAN's request, D of Adm undertook to provide the written explanation.

(Post-meeting note: The written explanation provided by the Administration was circulated to Members vide LC Paper No. CB(1) 2364/01-02 on 26 July 2002.)

Pay adjustment trend of selected bodies

21. Noting that some of the selected bodies, such as HKMA, had made downward pay adjustments in the past year, Mr LEUNG Fu-wah requested the Administration to provide pay adjustment trend for the past five years in respect of the top three tiers of senior executives in the selected bodies to facilitate a more objective and fair assessment of the remuneration packages of these officers. D of Adm agreed to seek the required information from the selected bodies and brief the Panel after six months. He added that while the selected bodies adopted different pay adjustment mechanisms, the Administration would advise them to conduct pay trend surveys on an annual basis so that pay adjustment could be made in line with that of the private sector.

Admin

Way forward

22. At the request of Members, D of Adm undertook to consult the selected bodies and/or their senior executives with a view to briefing the Panel after six months on the following:

Admin

- (a) Reports of the governing boards or committees of the selected bodies to the responsible Directors of Bureaux;

- (b) Current remuneration packages of the top three tiers of senior executives in the selected bodies, subject to the consent of the officers concerned;
- (c) Contract expiry dates of the top three tiers of senior executives in the selected bodies; and
- (d) Pay adjustment trend for the past five years in respect of the top three tiers of senior executives in the selected bodies.

II. Any other business

23. There being no other business, the meeting ended at 10:35 am.

Legislative Council Secretariat
30 October 2002