

**Legislative Council Panel on Transport
Meeting on 21 March 2006**

KCRC's Variable Pay Scheme

Purpose

This paper provides Members with information on the Kowloon-Canton Railway Corporation's (KCRC) variable pay scheme for the members of the Management Committee and the performance measures for 2005.

Background

2. In 2002, the management consultant Hay Group Limited conducted a study on the remuneration packages of the top three tiers of the management of statutory bodies in Hong Kong and submitted a report to the Government.

3. In response to the recommendations made in the report of the Hay Group, KCRC introduced a variable pay scheme for the top three tiers of management on a trial basis for six months from July 2004. The aim was to encourage the management collectively to achieve good performance in four major strategic areas – Finance, Customer, Operations and Capital Projects.

4. As a result of the trial scheme, the Managing Board decided to introduce the variable pay scheme on a full-year basis with effect from 1 January 2005. Participation in the scheme was also extended to include all eight current members of the Management Committee (MCOM).

5. In February 2006, the Managing Board, reviewed the performance of the Corporation as confirmed by external auditors under each of the four strategic areas, and decided the individual amounts of variable pay due to each of the members of the scheme for 2005. The Managing Board further decided to make payment of the variable pay to each of the members, notwithstanding the incident on 21 December 2005

when cracks were found in the mountings of underframe equipment on East Rail trains.

Variable Pay Scheme

Corporate pool

6. Payment of the total amount of variable pay for the MCOM members is made from a corporate pool. Each month during the calendar year, deductions are made from the total remuneration of each member and placed in the pool. For the Chief Executive Officer (Acting) and each of the directors, they contribute 20% of their total remuneration for the year, and for each participating general manager 15% of their total annual remuneration.

7. In January the following year, the Managing Board will decide on the total amount of variable pay to be distributed from the pool to members based on the overall performance of the Corporation under the four strategic areas during the past year.

8. If the performance targets are met, 100% of members' contributions will be returned to them. If not, then scheme members stand to lose part or all of their contributions. If targets are exceeded, the Corporation will add an extra amount to the variable pay pool based on a fixed formula.

Performance measures

9. To assess the MCOM members' collective performance in 2005, 15 measures in total were established in early 2005 under the four strategic areas. These measures were mutually agreed between the Managing Board and MCOM members, and were drawn up having regard to the performance in the past years and the amount of improvement expected in 2005; the annual budget for 2005; and realistic assumptions about the progress over the next 12 months of capital projects, etc.

10. The 15 performance measures for 2005 were:

Targets	
Finance	
1.	Transport Revenue
2.	Commercial Revenue
3.	Cash Operating Costs
Customer Service	
4.	Service Attitude of Staff
5.	Overall Service Standards
6.	Customer Perception on Value for Money
Operations	
7.	Train Service Performance
8.	Delays of 8 Minutes or More
9.	Delays per Million Passenger Trips
10.	Passenger Safety
Capital Projects	
11.	Project Progress (Lok Ma Chau Spur Line)
12.	Accident Rate
13.	First Year Operational Performance of Ma On Shan Rail – Train Service Performance
14.	First Year Operational Performance of Ma On Shan Rail – Delay of 8 Minutes or More
15.	First Year Operational Performance of Ma On Shan Rail – Delays per Million Passenger Trips

Individual key objectives

11. Although the total sum placed in the corporate pool depends on the collective efforts of MCOM, the individual performance of each of the members is also measured and used to determine the actual amount of variable pay each individual finally receives for the year.

12. At the start of the year, individual key objectives are drawn up for each of the members to achieve during the year. At the end of the year, each member's performance is assessed against their objectives. Using a

fixed formula, the amount of variable pay each member finally receives is then calculated on the basis of the collective effort of MCOM and that member's individual performance.

Results for 2005

13. In early January 2006, the Strategic Human Resource Committee of the Managing Board assessed the Corporation's performance for the year 2005. The overall performance of KCRC was well above target against the 15 performance measures. Based on the agreed formula, the Committee recommended that the top-up to be made by the Corporation to the corporate pool of variable pay should be \$1 million.

14. After thorough discussion at the Board Meeting on 27 February 2006, the Managing Board accepted the recommendation of the Strategic Human Resource Committee and decided to distribute the variable pay pool to the participants in the scheme, including the additional \$1 million, according to the fixed formula.

The East Rail Underframe Equipment Cracks Incident

15. The Managing Board carefully considered whether the payment of variable pay for 2005 should be influenced by the East Rail incident on 21 December 2005, when cracks were first found in the mountings of underframe equipment. The Board decided that the incident should be delinked from the payment of variable pay for the year 2005 for the following reasons –

- (a) the root causes of the incident were at that time unknown and the Government had already indicated that an inquiry panel would be set up to investigate the incident. If subsequently it were to be found that any Corporation employee was suspected of being at fault, this would be dealt with separately; and
- (b) the Corporation was contractually bound to accept the results of the variable pay assessment process and could not unilaterally change this without the prior agreement of the MCOM members in the scheme.

Response of the MCOM members

16. The MCOM members welcomed the Managing Board's decision at the Board Meeting on 27 February to honour their contractual agreement with respect to their variable pay of 2005. However, the members recognised that the good performance of the past year owed much to the hard work and dedication of the staff as a whole. As a token of appreciation for the staff, the MCOM members, of their own initiative, unanimously decided to retain only that portion of the variable pay representing their individual contributions to the variable pay pool and recommended to the Managing Board to reallocate the additional sum of \$1 million to the staff.

17. The Corporation issued a press release on 2 March to announce the decision. At the same time, the MCOM members issued an open letter to the KCRC staff and a letter to the Managing Board to explain their stance. The detailed arrangements for reallocating the additional amount added to the variable pay pool to the staff has yet to be decided by the Managing Board.

Kowloon-Canton Railway Corporation
March 2006