

**Legislative Council Panel on Constitutional Affairs**

**Remuneration Package for Politically-Appointed Officials  
Serving in the Fourth-Term HKSAR Government**

**Introduction**

At the meeting of the Executive Council on 8 May 2012, the Council ADVISED and the Chief Executive ORDERED that all the recommendations of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the Hong Kong Special Administrative Region (the Independent Commission)<sup>1</sup> regarding the remuneration package for politically-appointed officials (PAOs) serving in the fourth-term HKSAR Government (HKSARG), after incorporating the Administration's modifications on the cash remuneration for Directors of Bureaux (DoBs) and further proposals on the leave arrangements, as set out in (a)-(i) below, should be accepted:

- (a) the cash remuneration for DoBs<sup>2</sup> be increased by 8.1% from \$3,577,380 to \$3,867,120 per annum (i.e., from \$298,115<sup>3</sup> to \$322,260<sup>4</sup> per month);

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<sup>1</sup> The Independent Commission is appointed by the Chief Executive to advise the Administration on the remuneration package for members of the Executive Council and the Legislature, as well as politically-appointed officials. It is chaired by Mr Vincent CHENG, with Mr Nicky LO, Mr CHOW Chung-kong, Mrs Betty YUEN, Professor CHAN Yuk-shee and Ms Kelly CHAN as other members.

<sup>2</sup> Since 1 July 2007, the terms of employment of the post of Director of Chief Executive (CE)'s Office have been aligned with those of a DoB. The proposed level of remuneration for DoBs would also apply to the Director of CE's Office.

<sup>3</sup> This figure represents the level of remuneration for DoBs approved by the Finance Committee of the Legislative Council in 2002. Following a voluntary pay reduction of 5.38% in 2009, the current monthly cash remuneration received by DoBs is \$282,080.

<sup>4</sup> Rounded to the nearest \$5. The costs for Mandatory Provident Fund contribution by the Government, medical and dental benefits and encashment of vacation leave are not included.

- (b) the differential in cash remuneration between DoBs, the Secretary for Justice (SJ), the Financial Secretary (FS) and the Chief Secretary for Administration (CS) be maintained at 3.5% for each tier;
- (c) the cash remuneration for the Deputy Chief Secretary for Administration (DCS) and the Deputy Financial Secretary (DFS) be pitched midway between that for the SJ and that for DoBs (i.e., 1.75% above that for DoBs);
- (d) the cash remuneration for Under Secretaries be set at 70% of that for DoBs;
- (e) the total cash remuneration for Political Assistant(s), engaged by each of the Secretaries of Departments, Deputy Secretaries of Departments and DoBs (except the SJ and the Secretary for the Civil Service<sup>5</sup>), be capped at \$1.2 million per annum (or capped at \$100,000 per month);
- (f) the leave arrangements for PAOs be brought in line with that for civil servants on new terms, i.e., to allow encashment of leave balance accrued up to and including the end date of the appointment of PAOs. The leave encashment arrangement should only be applicable to PAOs who have served the full term of appointment as prescribed by the contract and subject to the prescribed maximum accumulation limit (i.e. 22 days during the term of appointment of PAOs);
- (g) other components of the existing remuneration package for PAOs be retained, namely:
  - (i) annual leave of 22 days per annum (subject to a maximum accumulation limit of 22 days during the term of their appointment),
  - (ii) medical and dental benefits on the same basis as those provided to civil servants during the term of their employment,

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<sup>5</sup> At present, the SJ and the Secretary for the Civil Service are not underpinned by Political Assistants.

- (iii) Mandatory Provident Fund contribution by the Government,
  - (iv) use of a car and driver when in Hong Kong at his discretion for each of the Secretaries of Departments and DoBs as well as for the Director of the Chief Executive (CE)'s Office. Departmental transport for Under Secretaries is provided by relevant policy bureaux/offices from their internal resources, and
  - (v) an official residence and an non-accountable entertainment allowance<sup>6</sup> for each of the Secretaries of Departments.
- (h) the DCS and the DFS shall be eligible for broadly the same benefits as those provided to Secretaries of Departments, except that they would not be entitled to official residences and non-accountable entertainment allowance; and
- (i) the remuneration for PAOs be adjusted annually in line with the movement of Consumer Price Index (C) (CPI(C)).

2. Details of the proposed remuneration package for PAOs serving in the fourth-term HKSARG are set out in **Annex A**.

## **Justifications**

### **The Review**

3. The Independent Commission is tasked, among others, to advise the Administration on the remuneration package for PAOs. According to its terms of reference, the Independent Commission “carries out periodic review of the remuneration package for Officials under the Political Appointment System, say once every five years and normally about a year before the start of a new term of the HKSAR Government”. With the fourth-term HKSARG due to assume office in July 2012, the Independent Commission has completed a review of the remuneration package for existing positions of PAOs, on the basis that such positions will continue to exist in the fourth-term HKSARG.

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<sup>6</sup> The non-accountable entertainment allowance is a perquisite associated with an official residence for meeting expenses for official entertainment at the official residence.

4. The terms of reference of the Independent Commission also provide that the Commission “advises the Administration on any matter relating to the remuneration package for Members of the Executive Council and the Legislative Council, and Officials under the Political Appointment System of the HKSAR which the Administration may refer to the Independent Commission from time to time”. At the request of the Office of the CE-elect (CE-elect Office), the Administration has conveyed to the Independent Commission the CE-elect Office’s invitation to advise on the remuneration package for the posts of DCS and DFS proposed to be created in the fourth-term HKSARG. The Independent Commission has made recommendation in this regard.

5. A copy of the Independent Commission’s report is at **Annex B**. The key deliberations and recommendations of the Independent Commission are set out in the ensuing paragraphs.

### **General Principles and Considerations**

6. During the review process, the Independent Commission had due regard to the following considerations:

- (a) performance of Hong Kong’s economy;
- (b) changes in CPI(C);
- (c) market pay practices for positions in the private sector with responsibilities comparable to PAOs; and
- (d) remuneration for PAOs should be commensurate with their responsibilities.

### **Cash Remuneration for DoBs**

7. When the remuneration package for PAOs was put to the Finance Committee of the Legislative Council (LegCo FC) for approval in 2002, it was proposed to cap the total cost to the taxpayers for DoBs at the level of the then average cost to the taxpayer of the incumbent substantive civil servants at Director of Bureau rank (D8), i.e., \$3,760,836 per annum. It was proposed that the remuneration package would make up of the following three components: cash remuneration at

\$3,742,800 per annum (or \$311,900 per month), \$12,000 per annum for Mandatory Provident Fund (MPF) contribution, and an amount of \$5,808 for the estimated value of the medical and dental services provided. The total remuneration package would come to \$3,760,608 per annum. It was further proposed in the submission considered by the LegCo FC that though PAOs are not civil servants and their remuneration packages would not be linked to civil service salaries, their cash remuneration would be adjusted accordingly if civil service pay was to be reduced later that year. The proposal was approved by LegCo FC in June 2002.

8. Since the salary of the civil servants in the upper salary band was subsequently reduced by 4.42% for 2002-03, the cash remuneration for DoBs was adjusted accordingly and the level as approved by LegCo FC was therefore \$298,115 per month or \$3,577,380 per annum (i.e. \$311,900 per month or \$3,742,800 per annum reduced by 4.42% respectively). This level of cash remuneration took effect at the same time as the salary for civil servants in the upper salary band was reduced in October 2002.

9. The CE and PAOs subsequently accepted a voluntary pay cut of 10% in 2003-04. When the third-term HKSARG took office in July 2007, the remuneration for the CE and PAOs was reverted to the levels approved by LegCo FC. The CE and PAOs accepted another voluntary reduction of salary by 5.38% with effect from July 2009, taking into account a possible reduction of the same magnitude in the pay of directorate civil servants. The actual cash remuneration for DoBs has since remained unchanged, at 5.38% below the level approved by LegCo FC in 2002. At the end of the current-term Government, this voluntary reduction will cease, and the level of cash remuneration for DoBs in the fourth term HKSARG will revert to the level approved by LegCo FC in 2002.

#### *Deliberations of the Independent Commission*

10. In considering whether any adjustment should be made to DoBs' cash remuneration, the Independent Commission has taken into account the following:

- (a) Performance of Hong Kong's economy: From 2002 to 2011, the cumulative growth in GDP in real terms is 52.4%. Unemployment rate fell from 7.5% in the second quarter of 2002 to 3.4% in the first quarter of 2012;

- (b) Changes in CPI(C): The cumulative increase in CPI(C) from 2002 to 2011 is 15.3%; and
- (c) Market pay practices for positions in the private sector with responsibilities comparable to PAOs: According to the findings of a recent consultancy study<sup>7</sup>, the median and average total direct compensation (i.e., total remuneration less the elements relating to retirement benefits or end-of-contract payments) for the senior executives surveyed has increased by 8% and 38% respectively as compared with the findings of a consultancy study undertaken in 2001/02<sup>8</sup>.

11. The Independent Commission has also considered that there is increasing pressure for DoBs to be held politically accountable for the outcome of their policies and the services delivered by their executive departments.

12. Having regard to the above, the Independent Commission considers that the current level of cash remuneration for DoBs (which was set in 2002):

- (a) does not reflect the economic growth in Hong Kong from 2002 to 2011;
- (b) does not reflect the cumulative increase in CPI(C) over the same period; and
- (c) falls behind changes in the private sector pay over the same period.

13. That said, the Independent Commission also recognises that the community would generally regard public service at the top political layers to be an honour for those who have a sense of mission to serve

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<sup>7</sup> The Independent Commission has commissioned a consultant to assess the change in pay levels for positions of comparable responsibilities in the private sector since 2002.

A total of 229 companies/organizations were invited and 64 participated in the survey.

<sup>8</sup> The Administration commissioned a consultant to conduct a study and recommend an appropriate remuneration package for the PAOs before the introduction of the Political Appointment System in July 2002.

Hong Kong, and might not accept a substantial increase in the remuneration for DoBs.

14. On balance, the Independent Commission recommends that, with effect from the fourth-term HKSARG, the cash remuneration for DoBs, as last approved by the LegCo FC, should be increased by the same rate as the cumulative increase in CPI(C) from 2002 to 2011, namely 15.3% (see paragraph 10(b) above). In other words, the proposed remuneration for DoBs is \$4,124,760 per annum, or \$343,730 per month. The Independent Commission considers that this recommendation is reasonable because it will compensate for the erosion of the purchasing power of a DoB's cash remuneration for the last 10 years. Moreover, it is in line with the growth of Hong Kong's economy over the last 10 years and the general trend of increase in the pay of positions of comparative responsibilities in the private sector over the last 10 years.

#### *Considerations of the Administration*

15. We note the Independent Commission's recommendation to increase the cash remuneration for DoBs on the basis of the level approved by LegCo FC in 2002 by 15.3%. We appreciate the justification for the recommendation, namely, to compensate for the erosion of the purchasing power of a DoB's cash remuneration for the last 10 years.

16. We consider that it would be prudent to also take into account the change in civil service pay in the upper salary band during the same period because the public might consider, and not without reason, that PAOs and civil servants are generally speaking both public servants in nature. In this regard, we note that since the level of cash remuneration for DoBs was approved by LegCo FC and took effect in October 2002, the salary of civil servants has been adjusted a few times: three reductions in 2003-04, 2004-05 and 2009-10, and four increases in 2007-08, 2008-09, 2010-11 and 2011-12, giving a cumulative increase of 8.1%. On the other hand, as explained in paragraph 9 above, with the voluntary reduction of salary accepted by the CE and PAOs in 2009, the cash remuneration for DoBs is currently 5.38% below the level approved by LegCo FC in 2002.

17. Having regard to the above, we propose that the cash remuneration for DoBs be increased on the basis of the level approved by the LegCo FC by the same rate as the cumulative pay increase of civil

servants in the upper salary band since the level took effect in October 2002, namely 8.1%. The proposed rate of increase:

- (a) though could not fully compensate for the erosion of purchasing power of DoB's cash remuneration for the last 10 years, could help to alleviate the problem to a certain extent;
- (b) is generally in line with the increase in the median total direct compensation for senior executives (at 8%) as surveyed by the consultancy commissioned by the Independent Commission; and
- (c) represents an annualized average increase of 0.78%, which is a more moderate rate of increase.

18. After the proposed increase, the cash remuneration for DoBs would be \$3,867,120 per annum (or \$322,260 per month).

### **Differential in cash remuneration between DoBs and Secretaries of Departments**

19. The Independent Commission considers it appropriate to maintain the differential in cash remuneration between DoBs, the SJ, the FS and the CS at 3.5% for each tier on the basis that there is no substantial change in their roles. If the cash remuneration for DoBs is to be increased by 8.1% (see paragraph 17 above), the cash remuneration for the SJ, the FS and the CS would be brought up to \$4,002,480, \$4,142,580 and \$4,287,600 per annum (or \$333,540, \$345,215 and \$357,300 per month) respectively.

### **Cash Remuneration for DCS and DFS**

20. The Independent Commission has been advised that the main responsibilities for the DCS and the DFS is to assist the CS and the FS respectively in developing closer cooperation between the HKSAR and the Mainland; co-ordinating policy formulation and implementation in specific policy areas; overseeing the work of a number of policy bureau; and promoting Hong Kong's developments on different fronts. The Independent Commission also notes that the two posts should be pitched between Secretaries of Departments and DoBs and that the two posts should be of the same rank.



21. Having regard to the above and on the assumption that the posts of the DCS and the DFS will be created with effect from the fourth-term HKSARG, the Independent Commission recommends that the cash remuneration for the two posts be pitched midway between that for the SJ and that for DoBs (i.e., 1.75% above that for DoBs), namely \$3,934,800 per annum (or \$327,900 per month), on the basis that the cash remuneration for DoBs would be increased by 8.1%.

### **Cash Remuneration for Under Secretaries**

22. The cash remuneration for Under Secretaries is currently set at 65% to 75% of that for DoBs. The Independent Commission acknowledges that a pay range provides some flexibility in recruiting different talents. Nevertheless, having regard to the fact that the Under Secretaries are supposed to perform similar levels of duties, the Independent Commission considers that there is a case for simplifying the system.

23. Accordingly, the Independent Commission recommends that the pay range of Under Secretaries should be pegged to a single point, i.e., 70% of DoBs' remuneration. This will bring the cash remuneration for Under Secretaries to \$2,706,960 per annum (or \$225,580 per month), on the basis that the cash remuneration for DoBs would be increased by 8.1%.

### **Cash Remuneration for Political Assistants**

24. The Independent Commission notes that the job description designed for Political Assistants has limited them largely to internal activities or behind-the-scene lobbying, resulting in the public having very little knowledge about their work. The Independent Commission considers it reasonable to lower the remuneration for Political Assistants to 30% of DoBs' remuneration (i.e., at about \$100,000 per month or \$1.2 million per annum should DoBs' pay be revised as set out in paragraph 18 above) because it is probably closer to the market for the type of talents which might be attracted to fill these positions.

25. The Independent Commission notes that CE-elect has proposed that the PAOs serving in the fourth-term HKSARG would need to increase public engagement at the district level. The Independent Commission also notes that the fourth-term HKSARG may engage a

number of Political Assistants (e.g., two or three Assistants) in each Bureau to provide support for the DoBs as well as to develop a pool of political talents. Accordingly, it is expected that Political Assistants serving in the fourth-term HKSARG will take up more public engagement and lobbying work at district level, assist in gauging views from the community on issues of concern, and take up more work in explaining government policies during consultations. Given that the types of talents for the level of Political Assistants could be rather diverse, the Independent Commission considers it difficult to recommend a single level of remuneration for all Political Assistants.

26. In the light of the above, the Independent Commission recommends that the total cash remuneration for Political Assistant(s) engaged by each of the Secretaries of Departments, Deputy Secretaries of Departments, and DoBs (except the SJ and the Secretary for the Civil Service) should be capped at \$1.2 million per annum (or capped at \$100,000 per month). This should enable the relevant officials more flexibility to engage a wide range of talents with different experiences and backgrounds.

27. The Administration agrees with this proposal.

### **Other Components of the Remuneration Package**

28. At present, in addition to cash remuneration, PAOs are eligible for:

- (a) annual leave of 22 days per annum (subject to a maximum accumulation limit of 22 days during the term of their appointment and any accumulated leave will be forfeited upon leaving office);
- (b) medical and dental benefits on the same basis as those provided to civil servants during the term of their employment;
- (c) Mandatory Provident Fund contribution by the Government;
- (d) the use of a car and driver in Hong Kong at his discretion for each of the Secretaries of Departments and DoBs as well as for the Director of CE's Office. Departmental transport for Under Secretaries is provided by relevant bureau/offices from their internal resources; and

- (e) an official residences and a non-accountable entertainment allowance for each of the Secretaries of Departments.

29. The Independent Commission recommends that the above measures should continue to be adopted for PAOs serving in the fourth-term HKSARG except for the leave arrangement (paragraphs 30-31 below). It also recommends that the DCS and the DFS should be eligible for broadly the same benefits as those enjoyed by Secretaries of Departments, except that they would not be given official residences and non-accountable entertainment allowance.

30. On the leave arrangement, the Independent Commission notes that at present, any accumulated leave owing to PAOs will be forfeited upon resignation, termination of contract, or expiry of contract. This is different from the arrangement provided for civil servants or Non-Civil Service Contract staff, for whom accrued leave (subject to the prescribed ceilings) will either be granted in the form of paid leave or encashed upon leaving the service.

31. Having regard to their roles and responsibilities, the Independent Commission considers it impracticable for PAOs to take all their accumulated leave in one block as in the case of retiring civil servants before their term of appointment ends. Hence, the Independent Commission recommends that, with effect from the fourth-term HKSARG, the arrangement for PAOs should be brought in line with that for civil servants on new terms, i.e., the leave balance accrued up to and including the end date of the appointment of PAOs can be encashed. The Administration further recommends that the leave encashment arrangements should only be applicable to PAOs who have served the full term of appointment as prescribed by the contract and should be subject to the prescribed maximum accumulation limit (i.e., 22 days during the term of appointment of PAOs).

### **Adjustment Mechanism for the Remuneration for PAOs**

32. The Independent Commission considers it necessary to put in place an objective and transparent adjustment mechanism to ensure that the remuneration for PAOs is adjusted from year to year in line with movements in the economy. In this regard, the Independent Commission has considered the following two options, namely:

Option (a): to adjust the remuneration in accordance with CPI(C); or

Option (b): to adjust the remuneration in accordance with the rate of civil service pay adjustment for the upper salary band.

#### Option (a)

33. The CPI(C) is an objective and transparent economic indicator which measures the changes over time in the price level of consumer goods and services generally purchased by households in the relatively high expenditure range. The Independent Commission notes that the remuneration of the Members of the Executive Council (ExCo) and LegCo are also adjusted in line with the movement of CPI(C).

34. Nevertheless, the Independent Commission also recognises that there is a possibility that CPI(C) and the economy may move in opposite directions<sup>9</sup>. It may not be entirely appropriate to increase the remuneration for PAOs during an economic downturn even though there is an increase in CPI(C).

#### Option (b)

35. The annual adjustment to civil service pay is determined after taking into account the relevant factors under the annual civil service pay adjustment mechanism (viz., the net Pay Trend Indicators, state of the economy, changes in the cost of living, the Government's fiscal position, staff sides' pay claims and civil service morale). While the remuneration for PAOs is not directly linked to civil service pay, the Independent Commission considers that the public may generally regard PAOs as public servants and may not resist the idea of adjusting remuneration for PAOs in line with civil service pay adjustments.

36. Nevertheless, as the annual civil service pay adjustment is decided by the CE-in-Council and the Secretaries of Department and DoBs are ex-officio members of the ExCo, tying remuneration adjustments for PAOs to civil service pay adjustments may arouse concerns about potential conflicts of interest.

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<sup>9</sup> For example, in 2009, the CPI(C) registered an increase of 0.6%, while the real Gross Domestic Product contracted by 2.6% over 2008.

37. Taking all factors into consideration, the Independent Commission recommends that the remuneration for PAOs should be adjusted annually in line with the movement of CPI(C). This can maintain the real value of the pay set for PAOs and avoid concerns about potential conflicts of interest.

### **Views of the Administration on the Independent Commission's recommendations**

38. We agree with all the Independent Commission's analyses and recommendations, subject to the Administration's modifications on the cash remuneration for Directors of Bureaux and further proposals on the leave arrangements.

### **Implications of the proposals**

#### *Financial Implications*

39. The recommendations on the cash remuneration will lead to an increase in the staff costs for the PAOs from Under Secretaries and above, which will be more than offset by the reduction in requirements for Political Assistants<sup>10</sup>.

40. On the basis of the existing structure of PAOs (i.e., CS, FS, SJ, 12 DoBs, D/CEO, 11 Under Secretaries, and 13 Political Assistants), the implementation of the recommendations on the cash remuneration for PAOs<sup>11</sup> would bring about an overall saving of about \$5 million<sup>12</sup> per annum.

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<sup>10</sup> Using the maximum pay point for the positions of Under Secretaries and Political Assistants as the basis for comparison.

<sup>11</sup> The provision for encashment of vacation leave, which will only be materialized, if any, by the end of appointment term, is not included in the calculation.

<sup>12</sup> This figure does not include the increase in the cash remuneration for the CE. The cash remuneration for the CE is set at 12.5% above that for the CS. As a result of the proposed increase in the cash remuneration for DoBs by 8.1%, the monthly cash remuneration for the CE will increase from \$371,885 to \$401,960, or from \$4,462,620 to \$4,823,520 per annum, i.e. an increase of \$360,900 per annum.

### *Other Implications*

41. The proposals are in conformity with the Basic Law, including the provisions concerning human rights. It has no economic, productivity, environmental or sustainability implications.

### **Advice Sought**

42. Members are invited to give views on the proposals regarding the remuneration package for the PAOs serving in the fourth-term HKSARG set out in the paper.

**Constitutional and Mainland Affairs Bureau**  
**May 2012**

## Annex A

### **Remuneration Package for PAOs Serving in the Fourth-Term HKSARG (2012-2017)**

#### **(1) Cash Remuneration \***

<b>Rank</b>	<b>Monthly Remuneration</b>		<b>Annual Remuneration</b>		<b>Pay differential after implementing recommendation</b>
	<b>Amount approved by the LegCo FC in 2002 (HK\$)</b>	<b>Recommended to take effect from 1 July 2012 (HK\$) **</b>	<b>Amount approved by the LegCo FC in 2002 (HK\$)</b>	<b>Recommended to take effect from 1 July 2012 (HK\$)</b>	
<b>CS</b>	330,565	357,300	3,966,780	4,287,600	<b>3.5% above FS</b>
<b>FS</b>	319,385	345,215	3,832,620	4,142,580	<b>3.5% above SJ</b>
<b>SJ</b>	308,585	333,540	3,703,020	4,002,480	<b>3.5% above DoBs</b>
<b>DCS</b>	-	327,900	-	3,934,800	<b>1.75% above DoBs</b>
<b>DFS</b>					
<b>DoBs</b>	298,115	322,260	3,577,380	3,867,120	-
<b>Director of the CE's Office ***</b>					
<b>Under Secretaries ***</b>	193,775 - 223,585	225,580	2,325,300 - 2,683,020	2,706,960	<b>70% of DoBs' pay</b>
<b>Political Assistants ***</b>	104,340 - 163,960	100,000#	1,252,080 - 1,967,520	1,200,000#	

\* the costs for Mandatory Provident Fund contribution by the Government, medical and dental benefits and encashment of vacation leave are not included.

\*\* rounded to the nearest \$5.

\*\*\* the remuneration package for Director of the CE's Office, Under Secretaries and Political Assistants were approved by the LegCo FC in 2007.

# the total cash remuneration for Political Assistant(s), engaged by each of the Secretaries of Departments, Deputy Secretaries of Departments and DoBs (except the SJ and the Secretary for the Civil Service ), be capped at \$1.2 million per annum (or capped at \$100,000 per month).

**(2) Other items**

In addition to cash remuneration, PAOs are eligible for:

- (a) annual leave of 22 days per annum, subject to a maximum accumulation limit of 22 days during their term of appointment. For PAOs who have served the full term of appointment as prescribed by the contract, the leave balance accrued up to and including the end date of the appointment (subject to the prescribed maximum) can be encashed upon leaving office;
- (b) medical and dental benefits on the same basis as those provided to civil servants during the term of their employment;
- (c) Mandatory Provident Fund contribution by the Government;
- (d) use of a car and driver when in Hong Kong at his discretion for each of the Secretaries of Departments, Deputy Secretaries of Departments and DoBs as well as for the Director of the Chief Executive's Office. Departmental transport for Under Secretaries is provided by relevant policy bureaux/offices from their internal resources; and
- (e) an official residence and an non-accountable entertainment allowance for each of the Secretaries of Departments.



**The Independent Commission on Remuneration for  
Members of the Executive Council and the Legislature,  
and Officials under the Political Appointment System  
of the Hong Kong Special Administrative Region**

**Report on the Remuneration Package for  
Politically-Appointed Officials serving in the Fourth-Term HKSAR  
Government**

**April 2012**

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## CHAPTER 1: INTRODUCTION

1.1 The Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the Hong Kong Special Administrative Region (the Independent Commission) is appointed by the Chief Executive (CE) to, inter alia, advise the Administration of the remuneration packages for Members of the Executive Council (ExCo), the Legislative Council (LegCo) and Politically-Appointed Officials (PAOs). The terms of reference and membership of the Independent Commission are at **Annex A** and **Annex B** respectively.

1.2 According to its terms of reference, the Independent Commission “carries out periodic review of the remuneration package for Officials under the Political Appointment System, say once every five years and normally about a year before the start of a new term of the HKSAR Government”. With the fourth-term HKSAR Government (HKSARG) due to assume office in July 2012, the Independent Commission has completed a review of the remuneration package for existing positions of PAOs, on the basis that such positions will continue to exist in the fourth-term HKSARG. The considerations and recommendations of the Independent Commission are set out in Chapters 2-5.

1.3 The terms of reference of the Independent Commission also provide that the Commission “advises the Administration on any matter relating to the remuneration package for Members of the ExCo and the LegCo, and Officials under the Political Appointment System of the HKSAR which the Administration may refer to the Independent Commission from time to time”. The Administration has conveyed to the Independent Commission the invitation of the CE-elect’s Office to advise on the remuneration package for the posts of Deputy Chief Secretary for Administration and Deputy Financial Secretary proposed to be created in the fourth-term HKSARG. The considerations and recommendations of the Independent Commission in this regard are set out in Chapter 6.

## Background

1.4 The Administration commissioned a consultant to conduct a study and recommend an appropriate remuneration package for the principal officials (POs) before the introduction of the Political Appointment System in July 2002<sup>1</sup>.

1.5 The consultant surveyed the remuneration of 56 Chief Executive Officers (CEOs) in Hong Kong. The median remuneration package of the CEOs was over \$6 million. The consultant recommended that a downward adjustment differential be considered and that the remuneration package for DoBs be set between \$3.66 and \$3.99 million, which falls within the 15<sup>th</sup> to 20<sup>th</sup> percentile of the total remuneration of the CEOs surveyed (\$3.48 million per annum and \$4.48 million per annum respectively).

1.6 Subsequently, the HKSARG made a decision to –

- (a) cap the value of the remuneration package for Directors of Bureaux (DoBs) at \$3.76 million<sup>2</sup>, which was equivalent to the annual weighted average costs to the taxpayer of the remuneration package for civil servants at D8 Level; and
- (b) set the pay differential between DoBs, Secretary for Justice (SJ), Financial Secretary (FS) and Chief Secretary for Administration (CS) at 3.5% for each tier.

1.7 The above proposals were approved by the LegCo Finance Committee (FC) in 2002<sup>3</sup>.

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<sup>1</sup> A total of 14 POs, i.e. three Secretaries of Department (the Chief Secretary for Administration, Financial Secretary and Secretary for Justice) and 11 Directors of Bureau, were appointed on contract.

<sup>2</sup> The remuneration package for DoBs proposed by the Administration comprises three parts, i.e. \$3,742,800 per annum for cash remuneration (\$311,900 per month), \$12,000 per annum for MPF contribution and \$5,808 for medical and dental coverage a year. The cash remuneration proposed was 38.1% below the median total direct compensation of the CEOs surveyed (\$6,045,000).

<sup>3</sup> In accordance with the employment package approved by the LegCo FC in June 2002, the cash remuneration for DoBs would be subject to adjustment according to the 2002 civil service pay cut (-4.42%). As a result, the monthly cash remuneration for DoBs was reduced from \$311,900 to \$298,115 per

1.8 In 2007, the Political Appointment System was expanded with the creation of two additional layers of PAOs, namely Under Secretaries and Political Assistants. Based on the remuneration ranges approved by the LegCo FC, the cash remuneration for Under Secretaries is pitched at a range equivalent to 65% to 75%<sup>4</sup> of that for a DoB. As regards Political Assistants, their cash remuneration is pitched at a range equivalent to 35% to 55%<sup>5</sup> of that for a DoB.

1.9 At present, the Political Appointment System comprises 40 positions, of which 32 are filled.

## **Current Remuneration Package for PAOs**

### **Cash Remuneration**

	<b>Amount approved by the LegCo FC in 2002 and 2007 (Monthly) (HK\$)</b>	<b>After the voluntary pay cut in 2009 (-5.38%) (Monthly) (HK\$)</b>
<b>CS</b>	330,565	<b>312,785</b>
<b>FS</b>	319,385	<b>302,205</b>
<b>SJ</b>	308,585	<b>291,985</b>
<b>DoBs (12 in total)</b>	298,115	<b>282,080</b>
<b>Director of the CE's Office</b>		

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month.

<sup>4</sup> The remuneration range for Under Secretaries is broadly equivalent to the remuneration of a D4 to D6 civil servant on agreement terms with all allowances and end-of-contract gratuity encashed.

<sup>5</sup> The remuneration range for Political Assistants is broadly equivalent to the remuneration of a senior professional to D2 civil servant on agreement terms with all allowances and end-of-contract gratuity encashed.

<b>Under Secretaries</b> (11 in total, of which 7 are filled)	193,775 - 223,585	<b>183,350</b> - <b>211,560</b>
<b>Political Assistants</b> (13 in total, of which 9 are filled)	104,340 - 163,960	<b>98,730</b> - <b>155,140</b>

### **Other Benefits**

1.10 In addition to cash remuneration, the PAOs are also eligible for –

- (a) annual leave of 22 days per annum (subject to a maximum accumulation limit of 22 days, any accumulated leave will be forfeited upon leaving office);
- (b) medical and dental benefits on the same basis as those provided to civil servants during the term of their employment;
- (c) Mandatory Provident Fund contribution by the Government;
- (d) use of a car and driver when in Hong Kong at his discretion for each of the Secretaries of Departments and DoBs as well as for the Director of the CE's Office. Departmental transport for Under Secretaries is provided by relevant policy bureaux/offices from their internal resources; and
- (e) an official residence and an non-accountable entertainment allowance<sup>6</sup> for each of the Secretaries of Departments.

### **Adjustment to the PAOs' Remuneration**

1.11 No mechanism for annual adjustments of PAOs' remuneration has since been established. Nevertheless, there have been

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<sup>6</sup> Non-accountable entertainment allowance is a perquisite associated with an official residence for meeting expenses for official entertainment at the official residence.

two occasions of voluntary pay reduction by PAOs since 2002 –

- (a) the CE announced in the 2003 Policy Address that all PAOs accepted a 10% voluntary reduction of their remuneration from 1 April 2003<sup>7</sup>; and
- (b) the CE announced on 16 June 2009 that all PAOs accepted a 5.38% voluntary reduction of their remuneration from 1 July 2009.

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<sup>7</sup> The 10% pay cut does not apply to the current term HKSAR Government which took office on 1 July 2007. Accordingly, the remuneration for PAOs has been restored thereafter to the level approved by the LegCo FC in 2002.

## CHAPTER 2: APPROACH AND GENERAL PRINCIPLES AND CONSIDERATIONS

### APPROACH

2.1 The Independent Commission commissioned a consultant to gather information about the remuneration practices in overseas jurisdictions and assess the change since 2002 in pay levels for positions of comparable responsibilities in the private sector. The consultant's report is at Annex C.

#### *Overseas Practices*

2.2 The consultant has looked into the remuneration practices in six overseas jurisdictions, i.e., the United Kingdom, the United States, Canada, Australia, New Zealand and Singapore. The consultant's conclusion is that due to the differences in the political systems and socio-economic situations, approaches taken in the selected jurisdictions may not be applicable to Hong Kong. The consultant suggests that the PAOs' remuneration be reviewed and adjusted having regard to the performance of Hong Kong's economy, the relevant pay levels of the public and private sectors, and the institutional needs of the HKSARG.

#### *Local Remuneration Survey*

2.3 A total of 229 companies/organizations were invited and 64 participated in the survey. The findings show that there has been a clear and substantial increase in the pay for the senior executives over the past ten years. For example, the average total direct compensation (i.e., total remuneration less the elements relating to retirement benefits or end-of-contract gratuity payments) for the senior executives surveyed has increased by 38% as compared with the findings of the consultancy study in 2001/02.

2.4 The consultant recommends that the median level of total direct compensation of the senior executives covered in the survey (i.e., \$6,535,000 per annum) should be used as the reference point for DoBs' pay. Adopting the discounting factor used in 2002<sup>8</sup>, the consultant recommends an annual pay of \$4,045,200 (or \$337,100 per month) for

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<sup>8</sup> A discount of 38.1% of the reference point, see footnote 2 above.



DoBs serving in the fourth-term HKSARG. This proposed level of pay falls between the 10<sup>th</sup> (\$3,386,574 per annum) and 15<sup>th</sup> percentile (\$4,365,786 per annum) of the total direct compensation for the senior executives surveyed.

### **General Principles and Considerations**

2.5 During the review process, the Independent Commission has due regard to the following considerations –

- (a) performance of Hong Kong's economy;
- (b) changes in Consumer Price Index (C);
- (c) market pay practices for positions in the private sector with responsibilities comparable to PAOs; and
- (d) remuneration for PAOs should be commensurate with their responsibilities.

## CHAPTER 3: CASH REMUNERATION

### DoBs

#### Current Situation

3.1 The cash remuneration for DoBs is the benchmark for determining the levels of cash remuneration for other PAOs. The annual remuneration approved by the LegCo FC in 2002 and again in 2007 for DoBs is \$3,577,380 (\$298,115 per month)<sup>9</sup>.

#### Considerations

3.2 In considering whether any adjustment should be made to DoBs' remuneration, the Independent Commission has taken into account the following –

(a) Performance of Hong Kong's economy

The Hong Kong's economy has continued to expand in the past ten years despite the ups and downs in the international environment. Between 2002 and 2011, the cumulative growth in GDP in real terms is 52.4% (see Annex D for details). Unemployment rate fell from 7.5% in the second quarter of 2002 to 3.4% for January - March 2012.

(b) Changes in Consumer Price Index (C)

The cumulated increase in Consumer Price Index (CPI) (C) for the period from 2002 to 2011 is 15.3% (see Annex D for details).

(c) Market pay practices for positions in the private sector with responsibilities comparable to PAOs

According to the findings of the survey conducted by the consultant (see Chapter 4 in Annex C for details), the median and average total direct compensation for the senior

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<sup>9</sup> Following a voluntary pay reduction of 5.38% in 2009, the monthly pay for DoBs was reduced to \$282,080.

executives surveyed has increased by 8% and 38% respectively as compared with the findings of the consultancy study in 2001/02.

- (d) Remuneration for DoBs should be commensurate with their responsibilities

There is increasing pressure for DoBs to be held politically accountable for the outcome of their policies and the services delivered by their executive departments.

3.3 Having regard to the above, the Independent Commission considers that the current level of remuneration for DoBs –

- (a) does not reflect the economic growth in Hong Kong from 2002 to 2011;
- (b) does not reflect the cumulative increase in CPI(C) over the same period;
- (c) falls behind changes in the private sector pay over the same period; and
- (d) is not commensurate with the level of responsibility for DoBs.

3.4 That said, the Independent Commission also recognises that the community would generally regard public service at the top political layers to be an honour for those who have a sense of mission to serve Hong Kong, and might not accept a substantial increase in the remuneration for DoBs.

## **Recommendations**

3.5 On balance, the Independent Commission recommends that, with effect from the fourth-term HKSARG, the cash remuneration for DoBs should be increased by 15.3% (which is equivalent to the cumulative increase in CPI(C) for the period from 2002 to 2011, see paragraph 3.2(b) above) on the basis of the level approved by the LegCo FC in 2002, viz. from \$3,577,380 to \$4,124,760 per annum<sup>10</sup>, or from

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<sup>10</sup> The costs for Mandatory Provident Fund contribution (\$12,000 per annum) and medical and dental benefits (\$7,728 per annum for 2011/12) are not included.

\$298,115 to \$343,730 per month<sup>11</sup>. The Independent Commission considers that this recommendation is reasonable because it will compensate for the erosion of the purchasing power of a DoB's cash remuneration for the last 10 years. Moreover, it is in line with the fact that Hong Kong's economy has grown over the last 10 years and the general trend that the pay of positions of comparative responsibilities in the private sector has increased over the last 10 years.

3.6 The Independent Commission notes that after implementing this increase, the cash remuneration for DoBs will be about 18%<sup>12</sup> above the value of the current total remuneration package for civil servants at the D8(2) rank (as at March 2012)<sup>13</sup>. The Independent Commission considers that this is not unreasonable because of the increasing expectations and pressures on PAOs.

## **Secretaries of Departments**

### **Current Situation**

3.7 At present, the differential in cash remuneration between DoBs, SJ, FS and CS is 3.5%.

### **Considerations and Recommendation**

3.8 On the basis that there is no substantial change in their roles, the Independent Commission considers it appropriate to maintain the 3.5% pay differential for the fourth-term HKSARG. This will bring the

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The proposed level of remuneration for DoBs would also apply to the Director of the CE's Office. Prior to 1 July 2007, the remuneration for the Director of the CE's Office was pitched at the equivalent of those applicable to the civil service rank at D8 level. The salary, fringe benefits and gratuity of the appointment was similar to and no better than those in respect of the equivalent rank in the civil service. As from 1 July 2007, the terms of employment of the post of Director of CE's Office was aligned with those of a DoB.

<sup>11</sup> Rounded up to the nearest \$5.

<sup>12</sup> This differential would be reduced if there is any salary increase for D8 civil servants in 2012-13.

<sup>13</sup> The total value of the remuneration package for civil servants at the D8(2) rank is around \$3.5 million per annum as at March 2012.

total cash remuneration for SJ, FS and CS to \$4,269,180, \$4,418,640 and \$4,573,320 per annum (or \$355,765, 368,220 and \$381,110 per month) respectively.

## **Under Secretaries**

### **Current Situation**

3.9 At present, the cash remuneration for Under Secretaries is set at 65% to 75% of that for DoBs.

### **Considerations and Recommendation**

3.10 While the Independent Commission agrees that a pay range provides some flexibility in recruiting different talents, having regard to the fact that the Under Secretaries are supposed to perform similar levels of duties, there is a case for simplifying the system.

3.11 Accordingly, we recommend that the pay range of Under Secretaries be pegged to a single point, i.e., 70% of DoBs' remuneration. This will bring the cash remuneration for Under Secretaries to \$2,887,380 per annum (or \$240,615 per month).

## **Political Assistants**

### **Current Situation**

3.12 At present, the cash remuneration for Political Assistants is set at 35% to 55% of that for DoBs.

### **Considerations and Recommendation**

3.13 The Independent Commission considers that the job description designed for Political Assistants has limited them largely to internal activities or behind-the-scene lobbying, resulting in the public having very little knowledge about their work. In this regard, the Independent Commission considers it reasonable to lower the cash remuneration for Political Assistants to 30% of that for DoBs (i.e., at about \$100,000 per month or \$1.2 million per annum after DoBs' pay is revised as set out in paragraph 3.5 above) because it is probably closer to the market for the type of talents which might be attracted to fill these

positions.

3.14 The Independent Commission notes that the CE-elect has proposed that the POs serving in the fourth-term HKSARG would need to increase public engagement at the district level. The Independent Commission also notes that the fourth-term HKSARG intends to engage a number of political assistants (e.g. two or three Assistants) in each Bureau to provide support for the POs as well as to develop a pool of political talents. Accordingly, it is expected that Political Assistants serving in the fourth-term HKSARG will take up more public engagement and lobbying work at district level, assist in gauging views from the community on issues of concern, and take up more work in explaining government policies during consultations.

3.15 Given that the types of talents for the level of Political Assistants could be rather diverse, it would be difficult for the Independent Commission to recommend a single level of remuneration for all Political Assistants.

3.16 In the light of the above, the Independent Commission recommends that the total cash remuneration for Political Assistant(s) engaged by each PO (except the SJ and the Secretary for the Civil Service who would not be underpinned by Political Assistants) should be capped at \$1.2 million per annum (or capped at \$100,000 per month).

3.17 This should enable POs more flexibility to engage a wider range of talents with different experiences and background. Nevertheless, appropriate safeguards should be put in place to ensure that the level of remuneration for individual Political Assistants is determined properly with reasonable internal relativities.

## **CHAPTER 4: OTHER COMPONENTS OF THE REMUNERATION PACKAGE**

### **Current situation**

- 4.1 In addition to cash remuneration, the PAOs are eligible for –
- (a) annual leave of 22 days per annum (subject to a maximum accumulation limit of 22 days, any accumulated leave will be forfeited upon leaving office);
  - (b) medical and dental benefits on the same basis as those provided to civil servants during the term of their employment;
  - (c) Mandatory Provident Fund contribution by the Government;
  - (d) use of a car and driver when in Hong Kong at his discretion for each of the Secretaries of Departments and DoBs as well as for the Director of the CE's Office. Departmental transport for Under Secretaries is provided by relevant policy bureaux/offices from their internal resources; and
  - (e) an official residence and an non-accountable entertainment allowance for each of the Secretaries of Departments.

4.2 The Independent Commission recommends that the above measures should continue to be adopted for PAOs serving in the fourth-term HKSARG except for the leave arrangements. The considerations are set out below.

### **Considerations**

4.3 At present, any accumulated leave owing to the PAOs will be forfeited upon resignation, termination of contract, or expiry of contract. The Independent Commission notes that this is different from the arrangements provided for civil servants or Non-Civil Service Contract staff, for whom accrued leave (subject to the prescribed ceilings) will either be granted in the form of paid leave or encashed upon leaving the service.

4.4 Having regard to their roles and responsibilities, the Independent Commission considers it impracticable for the PAOs to take all their accumulated leave in one block as in the case of retiring civil servants before their term of appointment ends. Hence, the Independent Commission recommends that, with effect from the fourth-term HKSARG, the arrangements for PAOs should be brought in line with that for civil servants on new terms, i.e., to allow encashment of leave balance accrued up to and including the end date of the appointment of the PAOs.



## CHAPTER 5: ADJUSTMENT MECHANISM FOR THE REMUNERATION FOR PAOS

### Current Situation

5.1 At present, there is no adjustment mechanism for the remuneration for PAOs. Nevertheless, there were two occasions of voluntary pay reduction in 2003 and 2009 respectively.

### Considerations

5.2 The Independent Commission considers it necessary to put in place an objective and transparent adjustment mechanism to ensure that the remuneration of PAOs is adjusted from year to year in line with movements in the economy. In this regard, we have considered two options –

Option A: to adjust the remuneration in accordance with the CPI(C);  
or

Option B: to adjust the remuneration in accordance with the rate of civil service pay adjustment for the upper salary band.

#### Option A

5.3 The CPI(C) is an objective and transparent economic indicator which measures the changes over time in the price level of consumer goods and services generally purchased by households in the relatively high expenditure range. The Independent Commission notes that the remuneration of the ExCo and LegCo Members are also adjusted in line with the movement of CPI(C).

5.4 Nevertheless, the Independent Commission also notes that there is a possibility that CPI(C) and the economy move in opposite directions<sup>14</sup>. It may not be entirely appropriate to increase the remuneration for PAOs during an economic downturn even though there is an increase in CPI(C).

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<sup>14</sup> For example, in 2009, CPI(C) registered an increase of 0.6% over 2008, while the real Gross Domestic Product contracted by 2.6%.

## Option B

5.5 The annual adjustment to civil service pay is determined after taking into account the relevant factors under the annual civil service pay adjustment mechanism (viz. the net Pay Trend Indicators<sup>15</sup>, state of the economy, changes in the cost of living, the Government's fiscal position, staff sides' pay claims and civil service morale). While the remuneration for PAOs is not directly linked to civil service pay, the public may generally regard PAOs as public servants and may not resist the idea of adjusting the remuneration for PAOs in line with civil service pay adjustments.

5.6 Nevertheless, as the annual civil service pay adjustment is decided by the CE-in-Council and the Secretaries of Departments and DoBs are ex-officio members of the ExCo, tying remuneration adjustments for PAOs to civil service pay adjustments may arouse concerns about potential conflicts of interest.

## **Recommendations**

5.7 Taking all factors into consideration, the Independent Commission recommends that the remuneration for PAOs should be adjusted annually in line with the movement of CPI(C). This can maintain the real value of the pay set for PAOs and avoid concerns about potential conflicts of interest. This approach is also consistent with the recommendation in Chapter 3 to increase the PAOs' cash remuneration by the cumulated change in CPI(C) movements in the last 10 years.

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<sup>15</sup> Net Pay Trend Indicators are derived from the findings of the annual pay trend survey commissioned by the tripartite Pay Trend Survey Committee, comprising representatives of the staff sides, management representatives, and members from two independent advisory bodies on civil service salaries and conditions of service.

## **CHAPTER 6: REMUNERATION PACKAGE FOR DEPUTY SECRETARIES OF DEPARTMENTS**

### **Cash Remuneration**

#### **Considerations and Recommendation**

6.1 The Independent Commission has been advised that two new posts (namely Deputy Chief Secretary for Administration (DCS) and Deputy Financial Secretary (DFS)) will be created for the fourth-term HKSARG. The Administration has conveyed to the Independent Commission the invitation of the CE-elect's Office for advice on the remuneration package for the posts of DCS and DFS.

6.2 The Independent Commission notes that the main responsibilities for DCS and DFS are to assist CS and FS respectively in developing closer cooperation between the HKSAR and the Mainland; coordinating policy formulation and implementation in specific policy areas; overseeing the work of a number of policy bureaux; and promoting Hong Kong's developments on different fronts. The Independent Commission notes that the two posts should be pitched between Secretaries of Departments and DoBs and that the two posts should be of the same rank.

6.3 Having regard to the above, the Independent Commission recommends that the cash remuneration for DCS and DFS should be pitched midway between that for SJ and that for DoBs (i.e., \$4,196,940 per annum or \$349,745 per month) on the assumption that the posts of DCS and DFS will be created with effect from the fourth-term HKSARG.

#### **Other Components of the Remuneration Package**

##### **Considerations and Recommendation**

6.4 Having considered the ranking of Deputy Secretaries of Departments, the Independent Commission considers that they should be eligible for broadly the same benefits as those enjoyed by Secretaries of Departments (as set out in Chapter 4), except that they would not be entitled to official residences and non-accountable entertainment allowance.

## CHAPTER 7: SUMMARY OF RECOMMENDATIONS

- 7.1 To sum up, the Independent Commission recommends –
- (a) the cash remuneration of DoBs be increased by 15.3% on the basis of the level approved by the LegCo FC in 2002, viz. from \$3,577,380 to \$4,124,760 per annum (or from \$298,115 to \$343,730 per month);
  - (b) the pay differential between DoBs, SJ, FS and CS be maintained at 3.5% for each tier;
  - (c) the cash remuneration for Deputy Secretaries of Departments be pitched midway between that for SJ and that for DoBs (i.e., 1.75% above that for DoBs);
  - (d) the cash remuneration of Under Secretaries be set at 70% of that of DoBs;
  - (e) the total cash remuneration for Political Assistant(s) engaged by each PO (except the SJ and the Secretary for the Civil Service) should be capped at \$1.2 million per annum (or capped at \$100,000 per month);
  - (f) the cash remuneration of PAOs be adjusted annually in line with the movement of CPI(C); and
  - (g) the leave arrangements for PAOs be brought in line with that for civil servants on new terms, i.e., to allow encashment of leave balance accrued up to and including the end date of the appointment of the PAOs, and other components of the existing remuneration package for PAOs be retained. Deputy Secretaries of Departments should be eligible for broadly the same benefits as those enjoyed by Secretaries of Departments, except that they would not be entitled to official residences and non-accountable entertainment allowance.
- 7.2 The details are set out in **Annex E**.

**Terms of Reference of the Independent Commission**

The Independent Commission –

- (a) considers the system of remuneration for Members of the Executive Council and the Legislative Council, and Officials under the Political Appointment System of the Hong Kong Special Administrative Region (HKSAR), taking into account any factor that may affect the level of such remuneration and allowances;
- (b) carries out periodic review of the remuneration package for Members of the Legislative Council of the HKSAR, say once every three to five years and normally about a year before the start of a new Legislative Council term;
- (c) carries out periodic review of the remuneration package for Officials under the Political Appointment System, say once every five years and normally about a year before the start of a new term of the HKSAR Government;
- (d) considers the appropriate level of remuneration for those with multiple membership on the Executive Council and the Legislative Council of the HKSAR in deliberating on the above issues; and
- (e) advises the Administration on any matter relating to the remuneration package for Members of the Executive Council and the Legislative Council, and Officials under the Political Appointment System of the HKSAR which the Administration may refer to the Independent Commission from time to time.

**Membership of the Independent Commission**

Chairman

Mr Vincent CHENG Hoi-chuen, G.B.S., J.P.

Members

Mr Nicky LO Kar-chun, S.B.S., J.P.

Mr Chow Chung-kong

Mrs Betty Yuen So Siu-mai

Professor Chan Yuk-shee, B.B.S., J.P.

Ms Kelly Chan Yuen-sau



**CONSULTANCY SERVICES FOR  
REVIEWING THE REMUNERATION PACKAGES FOR  
OFFICIALS UNDER THE POLITICAL APPOINTMENT SYSTEM**

**FINAL REPORT**

**MARCH 2012**

**HEWITT ASSOCIATES LLC  
(AON HEWITT)**

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## 1. EXECUTIVE SUMMARY

1. At the request of the Independent Commission on Remuneration for Members of the Executive Council, the Legislature, and Officials under the Political Appointment System, the HKSAR Government (HKSARG) commissioned Aon Hewitt to :
  - (a) undertake research into the remuneration practices for political appointees in overseas jurisdictions;
  - (b) conduct a survey to assess the latest relevant pay levels offered by the private sector; and
  - (c) provide advice on the remuneration packages for politically-appointed officials (PAOs) serving in the fourth-term HKSARG.
2. Chapter 3 sets out the details of the remuneration practices in six overseas jurisdictions, i.e. the United Kingdom, the United States, Canada, Australia, New Zealand and Singapore. We are of the view that:
  - (a) due to the differences in the political systems and socio-economic situations, approaches taken in the selected jurisdictions may not be applicable to Hong Kong; and
  - (b) it is more appropriate for the PAOs' remuneration to be reviewed and adjusted having regard to the performance of Hong Kong's economy, the relevant pay levels of the public and private sectors, and the institutional needs of the HKSARG.
3. Chapter 4 sets out the methodology and findings of the survey.
  - (a) 64 companies/organizations participated in the survey.
  - (b) There has been a clear and substantial increase in the pay for the senior executives over the last ten years. For example, the average total direct compensation for the senior executives has increased by 38% over the period.

4. Chapter 5 sets out our recommendations on the remuneration packages for PAOs.  
A summary is as follows:

Rank	Approved by the Finance Committee of the Legislative Council (per annum)	Existing level of remuneration (per annum)	Recommended level of remuneration (per annum)	Compa-Ratio	
	(HK\$)	(HK\$)	(HK\$)	Recommended/ Approved level	Recommended/ Existing level
CS	3,966,780	3,753,420	4,485,000	13.1%	19.5%
FS	3,832,620	3,626,460	4,333,320	13.1%	19.5%
SJ	3,703,020	3,503,820	4,186,800	13.1%	19.5%
DoBs	3,577,380	3,384,960	4,045,200	13.1%	19.5%
Under Secretaries	2,325,300	2,200,200	2,629,380	13.1%	19.5%
	- 2,683,020	- 2,538,720	- 3,033,900		
Political Assistants	1,252,080	1,184,760	1,011,300	-19.2%	-14.6%
	- 1,967,520	- 1,861,680	- 1,415,820	- -28.0%	- -23.9%
Annual Adjustment Mechanism	-	-	Possible options include Rate of Civil Service Pay Adjustment and CPI	-	-
Regular Review	-	Once every five years	Once every five years	-	-

## 2. INTRODUCTION

At the request of the Independent Commission on Remuneration for Members of the Executive Council, the Legislature, and Officials under the Political Appointment System (“the Independent Commission”)<sup>1</sup>, the HKSARG appointed Aon Hewitt to provide consultancy services for reviewing the remuneration packages for officials under the Political Appointment System, which include the Chief Secretary for Administration (CS), Financial Secretary (FS), Secretary for Justice (SJ), Directors of Bureau (DoBs), Under Secretaries and Political Assistants.

### 2.1. OBJECTIVES

The objectives of this Consultancy are to:

- (a) gather information on how the remuneration packages for the political appointees (including the ministerial positions) of other countries are determined and adjusted annually (or otherwise);
- (b) gather information on the remuneration packages for the top three layers of executives of leading private sector companies, professional firms and public sector bodies/companies in Hong Kong;
- (c) provide advice on the remuneration packages for PAOs (i.e. the CS, FS, SJ, DoBs, Under Secretaries, and Political Assistants) serving in the fourth-term HKSARG (2012 – 2017); and
- (d) provide advice on the adjustment mechanism for the remuneration of the PAOs.

### 2.2. BACKGROUND

The remuneration packages for officials under the Political Appointment System<sup>2</sup> were drawn up in 2002 with reference to the level of responsibilities they were expected to discharge.

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<sup>1</sup> The Independent Commission is chaired by Mr Vincent Cheng. Other members are Mr Nicky Lo Kar-chun, Mr Chow Chung-kong, Mrs Betty Yuen So Siu-mai, Professor Chan Yuk-shee and Ms Kelly Chan Yuen-sau.

According to its terms of reference, the Independent Commission “carries out periodic review of the remuneration package for Officials under the Political Appointment System, say once every five years and normally about a year before the start of a new term of the HKSAR Government”.

<sup>2</sup> The Political Appointment System (formerly known as “Accountability System”) was introduced on 1 July 2002. A total of 14 Principal Officials, i.e. three Secretaries of Department (i.e. CS, FS and SJ) and 11 DoBs, were appointed on contract terms.

## Remuneration packages for Principal Officials

The HKSARG commissioned a consultant to conduct a study and recommend an appropriate remuneration package for the principal officials (POs) (i.e. Secretaries of Department and DoBs). The Consultant recommended 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. The HKSAR Government considered 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) was a better reference point. It was because the nature of employment as a PO was such that it might 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. The consultant further recommended that a downward adjustment differential be considered and the range of the remuneration package recommended for DoBs be set at between \$3,662,000 and \$3,995,000 per annum, which falls within the 15th to 20th percentile of the total remuneration of the CEOs surveyed (\$3.48 million per annum and \$4.48 million per annum respectively).

Subsequently, the HKSARG made a decision to:

- (a) cap the value of the remuneration package for DoBs at \$3.76 million<sup>3</sup>, which is equivalent to the annual weighted average costs to the taxpayer of the remuneration package for civil servants at D8 Level; and
- (b) set the pay differential between DoBs, SJ, FS and CS at 3.5% for each tier.

### Other components

Apart from the cash remuneration, the POs are also entitled to:

- (a) annual leave of 22 working days per annum (subject to a maximum accumulation limit of 22 days);
- (b) medical and dental benefits;
- (c) Mandatory Provident Fund (MPF) contribution by the Government; and
- (d) a car and driver for use at their discretion.

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<sup>3</sup> The remuneration package for DoBs proposed by the HKSARG comprises three parts, i.e. \$3,742,800 per annum for cash remuneration (\$311,900 per month), \$12,000 per annum for MPF contribution and \$5,808 for medical and dental coverage a year. In accordance with the employment package approved by the Finance Committee of the Legislative Council in June 2002, the cash remuneration for DoBs would be subject to adjustment according to the 2002 civil service pay cut (-4.42%). As a result, the monthly cash remuneration for DoBs was reduced from \$311,900 to \$298,115 per month.

For the three Secretaries of Department, they are assigned their respective official residences and are entitled to a non-accountable entertainment allowance.

The above proposals were approved by the Finance Committee (“FC”) of the Legislative Council (“LegCo”) in 2002.

### **Remuneration packages for Under Secretaries and Political Assistants**

In 2007, the Political Appointment System was expanded with the creation of two additional layers of PAOs, namely Under Secretaries and Political Assistants. Based on the remuneration ranges approved by the LegCo FC, the remuneration for Under Secretaries is pitched at a range equivalent to 65% to 75%<sup>4</sup> of the remuneration for a DoB. As regards Political Assistants, their remuneration is pitched at a range equivalent to 35% to 55%<sup>5</sup> of the remuneration for a DoB.

In addition to cash remuneration, the Under Secretaries and Political Assistants are also eligible for annual leave of 22 days per annum (subject to a maximum accumulation limit of 22 days), medical and dental benefits and MPF contribution by the Government, on the same basis as those provided to Principal Officials.

### **Salary adjustment**

In the absence of an annual adjustment mechanism, there have been two occasions of voluntary pay reduction by PAOs since 2002:

- (a) all PAOs in the second term HKSARG (which ended on 30 June 2007) accepted a 10% voluntary reduction of their remuneration from 1 April 2003<sup>6</sup>; and
- (b) all PAOs in the current term HKSARG accepted a 5.38% voluntary reduction of their remuneration from 1 July 2009.

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<sup>4</sup> The remuneration range for Under Secretaries is broadly equivalent to the remuneration of a D4 to D6 civil servant on agreement terms with all allowances and end-of-contract gratuity encashed.

<sup>5</sup> The remuneration range for Political Assistants is broadly equivalent to the remuneration of a senior professional to D2 civil servant on agreement terms with all allowances and end-of-contract gratuity encashed.

<sup>6</sup> The 10% voluntary pay reduction does not apply to the PAOs serving in the current term HKSARG who took office on 1 July 2007.

### 3. REVIEW OF OVERSEAS PRACTICES

This section covers six overseas jurisdictions, i.e. Australia, Singapore, United Kingdom, United States, Canada and New Zealand. During the process of research, we have examined open source information and reviewed relevant reports and studies regarding the remuneration practices in each of the six jurisdictions. Based on the information gathered, we drafted a set of questions and distributed to our project teams in the respective jurisdiction to conduct the research. This can provide a unified framework for the analysis, comparison and reporting of our findings. The table below sets out the details of the findings.

	UK	USA	Canada	Australia	New Zealand	Singapore
<b>Current levels of remuneration</b>	<ul style="list-style-type: none"> <li>▪ Cabinet Minister £145,492</li> <li>▪ Minister of State £107,108</li> <li>▪ Parliamentary Under Secretary of State £97,139</li> <li>▪ Special Advisors (Scheme ceiling: £142,668)</li> <li>▪ Parliamentary Private Secretary £65,738</li> </ul>	<ul style="list-style-type: none"> <li>▪ Level 1: Cabinet Members \$199,700</li> <li>▪ Level 2: Deputy Secretaries \$179,700</li> <li>▪ Level 3: Under Secretaries \$165,300</li> <li>▪ Level 4: Assistant Secretaries (and General Counsels) \$155,500</li> <li>▪ Level 5: Assistants / Directors \$145,700</li> </ul>	<ul style="list-style-type: none"> <li>▪ Minister CAN\$233,247</li> <li>▪ Minister of State CAN\$214,368</li> <li>▪ Parliamentary Secretary CAN\$173,565</li> </ul>	<ul style="list-style-type: none"> <li>▪ Minister in Cabinet (also Manager of Government Business in the Senate) AU\$323,750<sup>7</sup></li> <li>▪ Other Ministers in the Cabinet AU\$319,125</li> <li>▪ Other Minister (also Manager of Government Business in the Senate) AU\$309,875</li> <li>▪ Other Ministers AU\$291,375</li> <li>▪ Parliamentary Secretary (also Manager of Government Business in the Senate) AU\$249,750</li> <li>▪ Parliamentary Secretaries AU\$231,250</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cabinet Ministers NZ\$257,800</li> <li>▪ Ministers NZ\$217,200</li> <li>▪ Other member of the Executive Council NZ\$189,000</li> <li>▪ Parliamentary Under-Secretary NZ\$168,600</li> </ul>	<ul style="list-style-type: none"> <li>▪ Deputy PM SG\$1,870,000</li> <li>▪ Minister (MR4 - Entry Level for Ministers) SG\$1,100,000</li> <li>▪ Senior Minister of State SG\$935,000</li> <li>▪ Minister of State SG\$770,000</li> <li>▪ Mayor / Senior Parliamentary Secretary SG\$660,000</li> <li>▪ Parliamentary Secretary / Political Secretary SG\$418,000</li> </ul>

<sup>7</sup> From 15 March 2012 each Senator and Member of the House of Representatives is paid a base salary of \$185,000 per annum (<http://www.remtribunal.gov.au/determinationsReports/byYear/2012/2012-02%20Determination.pdf>).

	UK	USA	Canada	Australia	New Zealand	Singapore
<b>Structure of the remuneration packages</b>	<ul style="list-style-type: none"> <li>▪Annual Salary as a Member of Parliament (MP)</li> <li>▪Additional remuneration as an office holder (e.g. cabinet minister)</li> <li>▪Allowances</li> <li>▪Medical benefits</li> <li>▪Pensions</li> </ul>	<ul style="list-style-type: none"> <li>▪Annual Salary</li> <li>▪Medical benefits</li> <li>▪Other entitlements</li> <li>▪Pensions</li> </ul>	<ul style="list-style-type: none"> <li>▪Annual Salary as an MP</li> <li>▪Additional remuneration as an office holder (e.g. cabinet minister)</li> <li>▪Medical benefits</li> <li>▪Other entitlements</li> <li>▪Pensions</li> </ul>	<ul style="list-style-type: none"> <li>▪Annual Salary as an MP</li> <li>▪Additional remuneration as an office holder (e.g. cabinet minister)</li> <li>▪Superannuation</li> <li>▪Electorate allowance</li> <li>▪Other entitlements</li> </ul>	<ul style="list-style-type: none"> <li>▪Annual Salary as an MP</li> <li>▪Additional remuneration as an office holder (e.g. cabinet minister)</li> <li>▪Superannuation subsidy</li> <li>▪Other entitlements</li> </ul>	<ul style="list-style-type: none"> <li>▪Fixed Annual Salary</li> <li>▪Annual Variable Component<sup>8</sup></li> <li>▪Individual Performance Bonus</li> <li>▪National Bonus<sup>9</sup></li> <li>▪Central Provident Fund</li> </ul>
<b>The authority responsible for the review / adjustment of remuneration</b>	<ul style="list-style-type: none"> <li>▪The Independent Parliamentary Standards Authority (IPSA)</li> </ul>	<ul style="list-style-type: none"> <li>▪Salaries are adjusted in accordance with the mechanism set out in the Ethics Reform Act 1989<sup>10</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>▪Salaries are adjusted in accordance with relevant legislation (including the Parliament of Canada Act and the Jobs and Economic Growth Act).</li> </ul>	<ul style="list-style-type: none"> <li>▪The Remuneration Tribunal</li> </ul>	<ul style="list-style-type: none"> <li>▪The Remuneration Authority</li> </ul>	<ul style="list-style-type: none"> <li>▪An independent committee appointed by the Prime Minister</li> </ul>

<sup>8</sup> Annual Variable Component refers to mid-year and year-end payments based on Singapore economic performance.

<sup>9</sup> National Bonus is calculated on the basis of the following (with equal weighting) –

- (i) Real median income growth rate of Singapore citizens;
- (ii) Real growth rate of the lowest 20th percentile income of Singapore citizens;
- (iii) Unemployment rate of Singapore citizen; and
- (iv) Real GDP growth

<sup>10</sup> The Ethics Reform Act of 1989 provides for an annual salary adjustment for all positions on the Executive Schedule, which outlines the pay scales or rate levels for appointed positions within the U.S. government (United States Code, Title 5, Subchapter II) and are denoted by the Roman numerals I, II, III, IV and V. Title 5 further outlines what appointed positions are eligible for each pay level under the Executive Schedule. (<http://www.wisageek.com/what-is-the-executive-schedule.htm>).

	UK	USA	Canada	Australia	New Zealand	Singapore
<b>Basis/Benchmark for determining the level of remuneration</b>	<ul style="list-style-type: none"> <li>▪ £400 per annum starting from 1911<sup>11</sup>.</li> <li>▪ The Salary of MPs was adjusted at irregular intervals and there was no regular machinery for its review.</li> <li>▪ An independent body called “The Top Salaries Review Body” (renamed the “Review Body on Senior Salaries” in July 1993)<sup>12</sup> was set up in 1971 to review the salaries and allowances of MPs.</li> <li>▪ The IPSA was set up in 2009 to determine the pay of MPs with effective from 2012.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Executive Schedule sets out the pay scales for the highest-ranked appointed positions in the Executive Branch of the U.S. government.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Remuneration of MPs is set out in the Parliament of Canada Act. MPs who occupy certain offices and positions (e.g. Cabinet Ministers) are entitled to additional remuneration<sup>13</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>▪ In December 1999 the Australian Government made a regulation under the Remuneration and Allowances Act (updated in December 2005) to link the parliamentary base salary to a reference salary (Reference Salary A) within the Tribunal’s Principal Executive Office Structure.</li> <li>▪ The Remuneration Tribunal has determined a new base salary figure for each Senator and Member of the House of Representatives with effect from 15 March 2012.<sup>14</sup></li> <li>▪ Additional remuneration is payable to those parliamentarians who are also Ministers.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Salaries and allowances are paid at rates determined by a statutory commission called the Remuneration Authority.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The salary of entry-level minister (MR4) (whose salary is pitched at 60% of the median income of top 1,000 Singapore Citizens income earners) is used as the benchmark to derive the salaries of the President, and political appointment holders.</li> </ul>

<sup>11</sup> <http://www.parliament.uk/documents/commons-information-office/fymp/m05.pdf>

<sup>12</sup> <http://www.official-documents.gov.uk/document/cm82/8297/8297.pdf>

<sup>13</sup> <http://www.parl.gc.ca/parlinfo/lists/Salaries.aspx?Menu=HOC-Politic&Section=03d93c58-f843-49b3-9653-84275c23f3fb>

<sup>14</sup> <http://www.remtribunal.gov.au/determinationsReports/byYear/2012/2012-02%20Determination.pdf>



	UK	USA	Canada	Australia	New Zealand	Singapore
Adjustment Mechanism	<ul style="list-style-type: none"> <li>▪ The IPSA has announced in March 2012 its decision<sup>15</sup> to:               <ul style="list-style-type: none"> <li>(a) keep MPs' pay at its 2010 level in 2012/13;</li> <li>(b) consult on a proposal to apply a 1% increase to MPs' pay in both 2013 and 2014; and</li> <li>(c) conduct a thorough review of pay and pensions, announcing the way forward by the end of 2013.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ As set out in the Ethics Reform Act of 1989, the adjustment<sup>16</sup> is based on the percentage change in the wages and salaries (not seasonally adjusted) for the private industry workers element of the Employment Cost Index<sup>17</sup>, minus 0.5% (December indicator).</li> <li>▪ The adjustment becomes effective at the same time as, and at a rate no greater than, the annual base pay rate adjustment for federal white-collar civilian employees under the General Schedule<sup>18</sup>.</li> <li>▪ The adjustment cannot be less than zero or greater than 5%.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Salaries and allowances are adjusted in accordance with the index of the average percentage change in base-rate wages for each calendar year, resulting from major settlements negotiated with bargaining units of 500 or more employees in the private sector in Canada, as published by the Department of Human Resources Development<sup>19</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Remuneration Tribunal will make a determination on parliamentary base salary and report to the Government annually on the additional salary payable to Ministers (sub-section 6(1) of the Act)<sup>20</sup>.</li> <li>▪ Under the Constitution, the salaries of Ministers are a matter for decision by Executive Government, and do not require legislative action for implementation<sup>21</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Remuneration Authority must review and issue a fresh determination at least once every three years<sup>22</sup>.</li> <li>▪ In practice, it has issued determination on an annual basis.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Salaries of political appointment holders are adjusted according to the movement of the salary of MR4<sup>23</sup>.</li> </ul>

<sup>15</sup> <http://www.parliament.uk/briefing-papers/SN06244>

<sup>16</sup> <http://www.fas.org/sqp/crs/misc/RS20388.pdf>

<sup>17</sup> The Employment Cost Index (ECI) measures the change in the cost of labour, free from the influence of employment shifts among occupations and industries. (<http://www.bls.gov/news.release/eci.tn.htm>)

<sup>18</sup> The General Schedule (GS) is the predominant pay scale within the United States civil service. It includes the majority of white collar personnel (professional, technical, administrative, and clerical) positions and is comprised of 15 "grades" ([http://en.wikipedia.org/wiki/General\\_Schedule\\_\(US\\_civil\\_service\\_pay\\_scale\)](http://en.wikipedia.org/wiki/General_Schedule_(US_civil_service_pay_scale))).

<sup>19</sup> <http://www.parl.gc.ca/parlinfo/lists/Salaries.aspx?Menu=HOC-Politic&Section=03d93c58-f843-49b3-9653-84275c23f3fb>

<sup>20</sup> The Ministers of State Act 1952, as amended, makes provisions for an annual appropriation which is apportioned in annual salaries to the Prime Minister, Deputy Prime Minister, Treasurer, Leader of the Government in the Senate, Leader of the House, other Ministers and Parliamentary Secretaries. The Remuneration Tribunal's most recent report on Ministers' additional salary can be found at (<http://www.remtribunal.gov.au/determinationsReports/byYear/2011/Report%201%20of%202011.pdf>).

<sup>21</sup> <http://www.remtribunal.gov.au/federalParliamentarians/default.asp>.

<sup>22</sup> <http://www.legislation.govt.nz/act/public/1977/0110/latest/DLM16167.html>

<sup>23</sup> <http://reviewcommittee2011.files.wordpress.com/2011/12/salaries-for-a-capable-and-committed-govt.pdf>

### **3.1. SUMMARY OF FINDINGS**

Our research on the remuneration practices in the selected jurisdictions points to the following key findings:

- (a) there is no single formula for determining and adjusting the pay for political appointees. Each of the selected jurisdictions has its own unique system and policies. For example, Singapore puts strong emphasis on the pay of the top earners of its private sector in determining and adjusting the ministerial pay, while in the United States, the levels of remuneration of the political appointees are linked to the changes in the costs of labour for businesses in the United States;
- (b) the structure of the remuneration packages of political appointees varies across the selected jurisdictions. For the jurisdictions that adopt parliamentary system (i.e. the United Kingdom, Canada, Australia, New Zealand and Singapore), the packages of the political appointees (who serve as MPs) usually consist of salary as an MP, additional salary as an office holder and a number of allowances to cover costs of providing constituent services. While in the United States (which adopts the presidential system), the political appointees are not members of the Congress and they receive a fixed annual salary as office holders;
- (c) most of the selected jurisdictions (i.e. the United Kingdom, Australia, New Zealand and Singapore) have established independent bodies to review or recommend adjustment to the pay for political appointees. This can ensure the independence and objectivity of the review and reduce political influences in decision making; and
- (d) some of the selected jurisdictions (i.e. the United States, Australia, Canada and Singapore) have put in place an automatic adjustment mechanism for the salaries of their political appointees. For example, the salaries of political appointees in the United States are adjusted annually in accordance with the Employment Cost Index, which measures change in labour costs.

### **3.2. IMPLICATIONS FOR HONG KONG**

Having regard to overseas experience, we see merit for the remuneration of political appointees to be reviewed by an independent body to minimise any potential conflict of interests and political influence. In the case of Hong Kong, the Independent Commission plays an important role in reviewing the remuneration packages for PAOs and providing advice and recommendations to the HKSARG.

Second, as in other jurisdictions, we consider it necessary to put in place an adjustment mechanism to ensure that the remuneration for political appointees is adjusted in line with movements in the economy and the pay of both public and private sectors.

On the other hand, we should also recognise the differences in the political systems and socio-economic situations between the selected jurisdictions and Hong Kong. Approaches taken in the remuneration review in jurisdictions where ministers are professional politicians may not be applicable to Hong Kong where PAOs may be drawn from different sectors and backgrounds.

To sum up, we recommend that the levels of remuneration of PAOs should be reviewed and adjusted having regard to the actual situation of Hong Kong. Factors that should be considered include the performance of the economy, the relevant pay levels of the public and private sectors, and the institutional needs of the HKSARG.

## 4. REMUNERATION SURVEY

### 4.1. OVERVIEW

Our aim is to gather information about the remuneration packages for the top three layers of executives of leading private sector companies, professional firms and public sector bodies/companies in Hong Kong.

We issued invitations to a total of 229 organisations to participate in a survey. The invitation list is at **Appendix A** for reference.

Over 70 organisations confirmed participation and 64 provided data within the timeframe eventually. The list of participating organisations is at **Appendix B**.

The reference date for the data was set at 1<sup>st</sup> July, 2011. However, due to the difficulties of collecting and annualizing the Variable Pay, some submissions may be based on earlier dates. All data must be valid throughout the period from 2011 to 2012.

### 4.2. PAY ELEMENTS

We have collated data regarding the various pay elements for the participants, which include basic salary, fixed bonus, allowances, variable pay, other non-fixed cash benefits as well as long term incentives (LTIs)<sup>24</sup> for compilation of “Base Salary”, “Guaranteed Cash”, “Total Cash” and “Total Direct Compensation” and “Total Remuneration”.

We noted that “Total Direct Compensation” (which includes Base Salary, Allowances, Fixed Payments, Variable Pay and LTIs, Retirement benefits or end of contract gratuity are excluded from the calculation) was used as a reference point for determining the pay for POs back in 2002<sup>25</sup>.

Given that the nature of employment as a PAO is such that it may be cut short at any time without cause or compensation, we agree that it is inappropriate to include retirement benefits or end of contract gratuity payments in the calculation and that the “Total Direct Compensation” is a better benchmark for comparison as it generally represents the total amount of pay received by top executives in the private sectors.

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<sup>24</sup> The LTIs are incentive arrangements designed to reward an individual for performance over a period of more than one year. The LTIs are not prevalent among the participants, which is similar to the findings of the survey conducted in 2001. The valuation of the LTIs is conducted internally by Aon Hewitt. The most prevalent LTI vehicle, Stock Options, is valued using Black Scholes formula and under a set of standardised parameters. Details of the Black Scholes valuation are set out in **Appendix C**.

<sup>25</sup> <http://www.legco.gov.hk/yr01-02/english/panels/ca/papers/ca0418cb2-paper-e.pdf>

### **4.3. SELECTION CRITERIA AND DATA CLEANSING**

#### ***Organisations***

The selected organisations:

- (a) should be considered stable employers that have established and systematic pay policy as well as salary administration and adjustment/review process;
- (b) should be regarded as leaders in their respective sectors;
- (c) should be respected and influential employers in their respective industries employing 100 employees or more;
- (d) should not be using the Government's pay adjustment or civil service pay scales as the main criteria in determining pay adjustments or setting pay levels; and
- (e) should have a minimum annual revenue of HKD 100 million.

Those which did not match the above criteria were screened out during the invitation and data collection stage.

#### ***Incumbents (Individuals)***

The survey covers the top three layers of the executives who are in leadership positions and have a strategic impact on the organisation they work for. The submitted data was cleaned and checked. The incumbents not belonging to such roles are not included in the survey.

The total number of incumbents accepted for the survey is 1,261.

### **4.4. RESPONSE RATES**

Most of the organisations that declined participation cited the time constraint, decision makers not in Hong Kong or not available during the period of the survey, too much work required to provide remuneration data and no interest in this study as main reasons for not participating in the survey. Aon Hewitt logged all responses and communications for quality assurance and internal checking.

While responses from private sector companies and public sector organisations are satisfactory, the number of professional firms responding was less than the other two sectors. During the invitation process, we note that many professional firms, particularly those operating in the form of partnership, declined to participate citing:

1. they have no interest in providing any pay data for this survey;
2. as there is no corporate-wide central control, they must obtain consent from each of the partners before releasing the pay data, making it difficult to collect data within the designated time frame; and
3. Partners at professional companies are not only the executives of the company, but also the owners. A substantial part of their income comes from

the owner's side. They do not believe that their remuneration system is directly comparable with that for government officials.

Aon Hewitt sees the merits of having professional firms participating in the survey. However, their importance as market reference should not be over-emphasized. As a whole, we do not consider the relatively lower rate of participation by professional firms would affect the thoroughness and representation of the survey.

#### **4.5. MARKET DATA SYNTHESISING**

After collecting remuneration data of the top three layers of executives from each participating organisation, we need to identify and group the incumbents into appropriate ranks according to the job size, the scope and accountability of work.

For example, the CEO, top executive of company A may not have the same job size, scope or accountabilities as the Managing Director, the top executive of company B. Large conglomerates or companies may also have more than one "chief executives" as each may manage a large independent business unit or portfolio in HK making it effectively the local CEO is his/her own right. Using the levels (by reporting structure) alone and based on organization sizes (revenue and headcounts) is no longer sufficient to ensure we capture the relevant "chief executive" positions or equivalent in the survey organisation.

In this regard, Aon Hewitt has specially designed a questionnaire that incorporates our Job Evaluation methodology, JobLink™, to evaluate the attributes of the job. JobLink™ is a factor point evaluation system that upon full application will award a score to each factor and sub-factor thus arriving at a total score. The ranges of scores are grouped into levels. The factors are:

1. Knowledge and Application
2. Problem Solving
3. Interaction
4. Impact
5. Accountability

The definitions of these factors and level descriptions are set out in **Appendix D**.

Aon Hewitt had held various levels of discussions with the participating companies/organizations to introduce, and provide guidance and support for filling out the questionnaires. Client visits also took place upon request.

Over 90% of incumbents provided the factor scores (partially and full). Upon data cleaning, we sought clarification with the participants or made simple and obvious corrections to the data to make them consistent for processing. In some cases, we obtained the consent from the participants to fill out the questionnaire for them based on our communications. We are comfortable that the factor rating collected and cleaned adequately reflected the organisations' view of the positions.

#### 4.6. SYNTHESISING METHODOLOGY

We group the three layers of executives into four ranks in accordance with their factor levels adopted a **Waterfall Approach**:

1. Only those top-layer executives with job data that reach the factor levels for top executives will form Rank 1. These are typically Chief Executives, Managing Partners or Managing Directors of the organizations. Those from the top layer who do not meet the factor levels for Rank 1 will go to the Rank 2 pool;
2. Layer-2 (layer below the top layer) executives with job data that reach the factor levels required for Rank 2, plus those from the top layer who do not meet the factor levels for Rank 1 will form the Rank 2 pool;
3. Layer-3 executives with job data that reach the factor levels required for Rank 3, plus those from Layer2 who do not reach the requirements for Rank 2 will form the Rank 3 pool;
4. Layer-3 executives with job data that do not meet the factor levels required for Rank 3 will be grouped under Rank 4.

Management Ranking	Knowledge	Application	Problem Solving	Interaction	Organization Impact	Personal Impact	Accountability	
Top Executive (Rank 1)	3	3	3 or 4	3	3 or 4	3 or 4	1 or 3	Significant Revenue
Rank 2	2 or 3	2	2 or 3	2 or 3	3 or 4	3	1 or 3	Accountable
Rank 3	1 or 2	1 or 2	2 or 3	2	2	2 or 3	Any	Not
Rank 4	1	1	1	1	1	2	Any	Considered

The pay level of Rank 1 executives would serve as a reference point for that of DoBs. The pay level of executives in Ranks 2-4 will provide a structured view of the pay levels of the lower levels of executives and serve as reference for the pay levels of Under Secretaries and Political Assistants.

## 4.7. KEY SURVEY FINDINGS

### 4.7.1. OVERALL SECTOR FINDINGS

One-half of the total survey participants are from the private sector. The public sector accounts for 38% and the professional firms make up the rest (as summarized in the figure below).

Sector	Invited	Participated	% of Total
Public	24	24	37.5%
Professional	73	8	12.5%
Private	132	32	50%
<b>Total</b>	<b>229</b>	<b>64</b>	<b>100%</b>

In terms of management level as indicated by the participating organisations, 5% of total incumbents are at the top level (Level 1) while 30% are at Level 2 and 65% are at Level 3. The full breakdown is summarized in the figure below.

Sector	Level 1	% of Total in sector	Level 2	% of Total in sector	Level 3	% of Total in sector	Total	% of Total in survey
Public	19	4%	133	26%	363	70%	515	41%
Professional	5	4%	44	36%	73	60%	122	10%
Private	35	6%	209	33%	380	61%	624	49%
<b>Total</b>	<b>59</b>	<b>5%</b>	<b>386</b>	<b>30%</b>	<b>816</b>	<b>65%</b>	<b>1261</b>	<b>100%</b>

A summary of the organisations' Revenue Size, Total Operating Expenses, Total Payroll and Number of Staff is as follows:

Overall	P10	P25	Median	P75	P90	Ave
Revenues (HKD Million)	418	645	4,257	23,112	36,119	19,412
Total Operating Expenses (HKD Million)	166	374	1,323	4,688	17,763	9,486
Total Payroll (HKD Million)	81	224	513	1,066	3,502	1,797
Number of Staff	212	578	1,616	4,622	9,745	4,533
Public	P10	P25	Median	P75	P90	Ave
Revenues (HKD Million)	453	634	2,689	10,339	27,596	8,559
Total Operating Expenses (HKD Million)	278	435	903	4,062	16,143	4,849
Total Payroll (HKD Million)	90	231	513	1,010	3,286	2,040
Number of Staff	197	531	934	3,859	6,205	4,564
Professional	P10	P25	Median	P75	P90	Ave
Revenues (HKD Million)	158	234	336	1,395	12,085	4,588
Total Operating Expenses (HKD Million)	43	80	166	192	314	171
Total Payroll (HKD Million)	50	92	125	186	310	168
Number of Staff	177	253	325	1,018	2,869	1,084
Private	P10	P25	Median	P75	P90	Ave
Revenues (HKD Million)	636	3,532	11,030	30,286	71,081	31,639
Total Operating Expenses (HKD Million)	186	880	3,359	7,003	24,430	15,379
Total Payroll (HKD Million)	182	310	694	2,380	4,444	2,012
Number of Staff	696	1,226	2,301	5,438	10,544	5,429

*(Only those organisations participating in this survey are included in this summary analysis)*



#### 4.7.2. FINDINGS BY SECTOR (ALL LAYERS COMBINED)

<b>Overall</b>	<b>P10</b>	<b>P25</b>	<b>Median</b>	<b>P75</b>	<b>P90</b>	<b>Average</b>
Annual Base Salary	955,560	1,192,320	1,515,840	2,011,752	2,716,440	1,774,405
Annual Housing Allowance	86,350	211,800	408,000	720,000	1,068,480	493,404
Annual Total Cash Allowance	54,587	144,000	271,908	721,500	1,087,728	459,610
Annual Total Cash Allowance as % of Base Salary	4%	10%	22%	45%	60%	28%
Annual Guaranteed Pay	1,044,000	1,280,000	1,726,800	2,359,992	3,120,000	2,014,948
Annual Total Variable Pay	142,971	300,000	585,455	1,117,350	2,242,606	1,100,386
Annual Total Variable Pay as % of Base Salary	12%	22%	36%	62%	108%	58%
Annual Actual Total Cash	1,194,300	1,560,004	2,220,000	3,169,056	4,720,500	2,812,532
Long Term Incentive	-	-	-	-	13,481	92,191
Total Direct Compensation	1,195,100	1,564,772	2,247,300	3,233,560	5,087,500	2,904,723
No. of incumbent = 1,261						
<b>Public</b>	<b>P10</b>	<b>P25</b>	<b>Median</b>	<b>P75</b>	<b>P90</b>	<b>Average</b>
Annual Base Salary	1,000,920	1,279,200	1,601,136	2,118,000	2,823,290	1,823,321
Annual Housing Allowance	206,242	298,350	600,000	1,007,790	1,147,284	669,684
Annual Total Cash Allowance	118,800	207,918	592,063	971,659	1,169,788	625,122
Annual Total Cash Allowance as % of Base Salary	9%	19%	37%	59%	60%	36%
Annual Guaranteed Pay	1,121,784	1,402,800	1,980,000	2,672,047	3,378,144	2,170,304
Annual Total Variable Pay	126,802	267,975	539,100	981,893	1,686,592	885,425
Annual Total Variable Pay as % of Base Salary	10%	17%	29%	48%	70%	38%
Annual Actual Total Cash	1,192,032	1,565,056	2,188,320	3,076,710	4,328,800	2,668,893
Long Term Incentive	-	-	-	-	-	3,315
Total Direct Compensation	1,192,032	1,565,056	2,188,320	3,076,710	4,328,800	2,672,209
No. of incumbent = 515						
<b>Private</b>	<b>P10</b>	<b>P25</b>	<b>Median</b>	<b>P75</b>	<b>P90</b>	<b>Average</b>
Annual Base Salary	961,836	1,197,300	1,514,340	1,958,350	2,584,532	1,743,456
Annual Housing Allowance	12,000	120,000	240,000	446,400	780,000	320,060
Annual Total Cash Allowance	18,240	117,000	211,800	444,900	798,880	321,724
Annual Total Cash Allowance as % of Base Salary	1%	7%	16%	27%	56%	21%
Annual Guaranteed Pay	1,051,368	1,279,956	1,680,000	2,235,591	2,896,944	1,928,328
Annual Total Variable Pay	210,850	390,000	709,290	1,304,901	2,788,177	1,322,252
Annual Total Variable Pay as % of Base Salary	19%	29%	43%	83%	148%	73%
Annual Actual Total Cash	1,336,621	1,749,108	2,354,729	3,431,548	5,096,250	3,106,489
Long Term Incentive	-	-	-	-	127,955	183,551
Total Direct Compensation	1,358,412	1,788,670	2,399,953	3,683,597	5,809,845	3,290,040
No. of incumbent = 624						

<b>Professional</b>	<b>P10</b>	<b>P25</b>	<b>Median</b>	<b>P75</b>	<b>P90</b>	<b>Average</b>
Annual Base Salary	816,236	937,500	1,165,194	1,649,694	2,481,319	1,726,213
Annual Housing Allowance	72,399	90,024	168,000	300,000	612,000	274,716
Annual Total Cash Allowance	67,767	91,568	170,767	288,000	552,000	265,214
Annual Total Cash Allowance as % of Base Salary	8%	8%	12%	30%	34%	22%
Annual Guaranteed Pay	829,200	982,200	1,245,000	1,780,500	2,544,408	1,802,183
Annual Total Variable Pay	33,827	74,750	142,100	245,025	398,322	203,045
Annual Total Variable Pay as % of Base Salary	2%	7%	14%	19%	30%	16%
Annual Actual Total Cash	845,700	1,071,600	1,402,000	1,840,134	3,081,920	1,915,355
Long Term Incentive	-	-	-	-	-	-
Total Direct Compensation	845,700	1,071,600	1,402,000	1,840,134	3,081,920	1,915,355
No. of incumbent = 122						

### 4.7.3. BREAKDOWN BY LAYERS (ALL SECTORS COMBINED)

<b>Layer 1</b>	<b>P10</b>	<b>P25</b>	<b>Median</b>	<b>P75</b>	<b>P90</b>	<b>Average</b>
Annual Base Salary	1,777,343	2,174,000	2,825,484	4,519,500	6,089,496	4,138,917
Annual Housing Allowance	12,000	216,000	804,000	1,200,000	1,608,000	778,631
Annual Total Cash Allowance	111,416	288,600	804,000	1,195,023	1,662,468	829,749
Annual Total Cash Allowance as % of Base Salary	4%	12%	28%	50%	69%	32%
Annual Guaranteed Pay	2,095,164	2,537,560	3,800,000	4,873,002	7,164,480	4,606,908
Annual Total Variable Pay	595,563	1,200,000	2,370,000	5,000,000	9,360,000	3,968,118
Annual Total Variable Pay as % of Base Salary	20%	33%	70%	135%	340%	129%
Annual Actual Total Cash	2,770,327	4,051,460	5,301,120	8,215,000	15,388,005	7,633,439
Long Term Incentive	-	-	-	-	32,469	230,176
Total Direct Compensation	2,770,327	4,051,460	5,301,120	9,094,396	16,003,759	7,863,615
<b>Layer 2</b>	<b>P10</b>	<b>P25</b>	<b>Median</b>	<b>P75</b>	<b>P90</b>	<b>Average</b>
Annual Base Salary	1,152,204	1,464,750	1,881,780	2,375,962	3,120,000	2,109,859
Annual Housing Allowance	142,478	288,000	500,000	911,640	1,180,440	619,559
Annual Total Cash Allowance	93,729	170,400	444,900	883,091	1,252,536	562,439
Annual Total Cash Allowance as % of Base Salary	6%	12%	28%	46%	60%	30%
Annual Guaranteed Pay	1,266,998	1,625,012	2,161,500	2,878,860	3,761,139	2,405,880
Annual Total Variable Pay	148,056	426,400	848,004	1,643,093	2,850,000	1,415,464
Annual Total Variable Pay as % of Base Salary	12%	25%	42%	69%	120%	66%
Annual Actual Total Cash	1,520,811	1,993,726	2,815,697	4,204,730	5,873,300	3,480,313
Long Term Incentive	-	-	-	-	21,430	103,557
Total Direct Compensation	1,520,811	2,010,750	2,836,746	4,293,281	6,411,620	3,583,869
<b>Layer 3</b>	<b>P10</b>	<b>P25</b>	<b>Median</b>	<b>P75</b>	<b>P90</b>	<b>Average</b>
Annual Base Salary	896,100	1,080,000	1,348,644	1,679,175	2,121,300	1,444,759
Annual Housing Allowance	73,099	191,760	252,000	600,000	916,980	392,024
Annual Total Cash Allowance	43,200	120,000	240,000	643,656	947,200	382,910
Annual Total Cash Allowance as % of Base Salary	3%	9%	20%	42%	60%	27%
Annual Guaranteed Pay	955,257	1,200,000	1,499,000	2,040,000	2,583,860	1,642,614
Annual Total Variable Pay	127,428	250,957	494,610	826,810	1,301,351	716,070
Annual Total Variable Pay as % of Base Salary	12%	20%	31%	55%	108%	48%
Annual Actual Total Cash	1,080,540	1,399,998	1,931,850	2,589,792	3,413,490	2,148,074
Long Term Incentive	-	-	-	-	-	76,826
Total Direct Compensation	1,084,540	1,403,300	1,961,873	2,657,169	3,557,140	2,224,901

#### 4.7.4. BREAKDOWN BY RANKS

Rank 1	P10	P15	P25	Median	P75	P90	Average
Annual Base Salary	1,917,912	2,098,241	2,391,300	2,901,120	4,900,002	6,698,328	4,553,515
Annual Housing Allowance	12,000	-	173,534	804,000	1,200,000	1,656,000	814,118
Annual Total Cash Allowance	18,240	150,240	290,392	852,000	1,298,844	1,653,702	851,686
Annual Total Cash Allowance as % of Base Salary	0%	5%	8%	28%	52%	69%	32%
Annual Guaranteed Pay	2,250,000	2,423,228	2,823,281	4,038,450	5,248,183	7,563,600	5,029,468
Annual Total Variable Pay	731,227	1,350,573	2,007,500	2,905,400	6,601,853	11,956,186	5,187,175
Annual Total Variable Pay as % of Base Salary	25%	0%	44%	88%	157%	550%	166%
Annual Actual Total Cash	3,386,574	4,365,786	5,053,625	6,230,000	12,764,000	17,415,245	9,223,354
Long Term Incentive	-	-	-	-	-	538,894	285,491
Total Direct Compensation	3,386,574	4,365,786	5,053,625	6,535,000	13,580,035	17,415,245	9,508,844

Rank 2	P10	P25	Median	P75	P90	Average
Annual Base Salary	1,476,444	1,765,350	2,200,008	3,039,519	3,983,004	2,592,562
Annual Housing Allowance	252,000	468,000	780,000	1,143,600	1,201,200	796,754
Annual Total Cash Allowance	144,000	367,200	640,364	1,141,320	1,349,660	763,015
Annual Total Cash Allowance as % of Base Salary	5%	17%	34%	55%	60%	35%
Annual Guaranteed Pay	1,706,640	2,163,630	2,898,950	3,454,200	4,676,592	3,063,486
Annual Total Variable Pay	561,675	800,000	1,399,998	2,242,865	3,822,400	2,037,909
Annual Total Variable Pay as % of Base Salary	25%	40%	54%	96%	200%	91%
Annual Actual Total Cash	2,379,956	3,188,422	4,105,438	5,339,225	8,055,306	4,678,637
Long Term Incentive	-	-	-	-	77,790	135,390
Total Direct Compensation	2,400,092	3,212,090	4,184,671	5,725,973	8,276,284	4,814,027

Rank 3	P10	P25	Median	P75	P90	Average
Annual Base Salary	1,026,540	1,260,000	1,635,000	2,040,000	2,416,933	1,690,676
Annual Housing Allowance	101,063	235,440	438,720	648,960	974,952	464,003
Annual Total Cash Allowance	30,806	144,000	288,000	650,880	979,680	421,249
Annual Total Cash Allowance as % of Base Salary	2%	9%	21%	43%	60%	27%
Annual Guaranteed Pay	1,140,000	1,436,343	1,864,066	2,325,090	2,761,088	1,914,423
Annual Total Variable Pay	168,600	367,603	599,180	1,004,500	1,677,600	867,540
Annual Total Variable Pay as % of Base Salary	14%	24%	35%	63%	108%	54%
Annual Actual Total Cash	1,490,003	1,870,635	2,361,326	3,011,178	3,830,915	2,596,692
Long Term Incentive	-	-	-	-	18,176	92,632
Total Direct Compensation	1,498,549	1,889,108	2,386,727	3,072,180	4,010,346	2,689,324

Rank 4	P10	P25	Median	P75	P90	Average
Annual Base Salary	820,920	995,400	1,229,940	1,444,344	1,633,800	1,235,343
Annual Housing Allowance	78,421	139,776	211,800	252,000	446,400	254,308
Annual Total Cash Allowance	61,947	118,800	199,800	335,415	793,368	295,560
Annual Total Cash Allowance as % of Base Salary	7%	9%	19%	35%	60%	25%
Annual Guaranteed Pay	904,950	1,092,000	1,302,020	1,581,660	2,027,484	1,373,899
Annual Total Variable Pay	103,359	162,678	298,080	549,998	775,600	389,555
Annual Total Variable Pay as % of Base Salary	9%	14%	25%	42%	58%	31%
Annual Actual Total Cash	968,134	1,201,824	1,498,625	1,941,219	2,384,899	1,608,883
Long Term Incentive	-	-	-	-	-	52,108
Total Direct Compensation	968,134	1,214,001	1,500,000	1,985,733	2,420,832	1,660,990

#### 4.7.5. BENEFITS

Below is a summary of the benefits and perquisites of the participants

<b>Benefit/Perquisite</b>	<b>All Sectors</b>
Total Participants	64
Retirement (including gratuity)	63
Contribution rate (excluding orgs providing only statutory MPF contribution)	0% (61) 1%-4% (2) 5%-8% (5) 9%-12% (1)
ORSO (Defined Benefit)	19
ORSO (Defined Contribution)	26
Life Insurance	55
Outpatient	61
Hospitalization	62
Medical	47
AD&D	46
Leave Passage Class of Travel	(20) First (0), Business (12), Economy (7), Not Reported (5)
Car Most Common Car Models	(40) Benz S-Class, Audi A6, BMW 7 Series TOYOTA Camry, Honda Accord, Lexus
Education Assistance	30
Education Assistance for Children	18
Clubs	37
Number of clubs	1(32), 2 (17), 3 or more (16), Not Reported (2)

#### 4.8. ANALYSIS

##### (a) Comparison across sectors

The Private Sector offers the highest pay (in terms of total cash and total direct compensation) as a whole, followed by the public sector and the professional firms. As compared with the public sector and professional firms, variable pay accounts for a larger portion of the base salary of participants of the private sectors.

##### (b) Comparison across layers

The median of the total direct compensation of the executives at the top level (Layer 1) is substantially above (87%) that of the Layer 2 executives. The difference is mainly attributable to the difference in Total Allowances and Variable Pay.

The difference between Layer 2 and Layer 3 executives is less significant. The difference in the median of the total direct compensation is about 45%.

##### (c) Comparison across ranks

After aligning the incumbents' data (according to the job functions) into four ranks, we note that the median of the total direct compensation of the top level executives at Rank 1 is 56% above that of the Rank 2 executives. While the median pay for Rank 2 executives is 75% higher than that for Rank 3 executives.

#### 4.9. COMPARISON OF SURVEY FINDINGS

The following table shows the comparison between the findings of the survey conducted in 2001 and that of the current survey.

*Survey Findings Comparison 2001\* vs. 2011 on All Organisations*

Pay Aggregates	2001					
	P10	P25	Median	P75	P90	Average
Base Salary	0	1,785,000	2,370,000	3,790,000	5,450,000	2,819,000
Guaranteed Pay	350,000	2,084,000	3,500,000	4,436,000	6,486,000	3,486,000
Total Variable Pay	0	456,000	1,427,000	3,956,000	9,672,000	2,965,000
Total Variable Pay as % of Base Salary	0	0	34%	76%	158%	101%
Actual Total Cash	2,309,000	4,397,000	5,570,000	7,760,000	12,225,000	6,451,000
Long Term Incentive	0	0	0	593,000	1,178,000	438,000
<b>Total Direct Compensation.</b>	2,615,000	4,397,000	<b>6,045,000</b>	9,028,000	12,225,000	6,889,000

\* 2001 Consultant Report – Findings of Survey of Remuneration of CEOs, Managing Directors and Managing Partners and Review of Overseas Practices

2011							Median
Rank 1 (47 incu.)	P10	P25	Median	P75	P90	Average	Compa- ratio
Base Salary	1,917,912	2,391,300	2,901,120	4,900,002	6,698,328	4,553,515	22.40%
Guaranteed Pay	2,250,000	2,823,281	4,038,450	5,248,183	7,563,600	5,029,468	15.40%
Total Variable Pay	731,227	2,007,500	2,905,400	6,601,853	11,956,186	5,187,175	103.60%
Total Variable Pay as % of Base Salary	25%	44%	88%	157%	550%	166%	55%
Annual Actual Total Cash	3,386,574	5,053,625	6,230,000	12,764,000	17,415,245	9,223,354	11.80%
Long Term Incentive	0	0	0	0	538,894	285,491	
<b>Total Direct Compensation.</b>	3,386,574	5,053,625	<b>6,535,000</b>	13,580,035	17,415,245	9,508,844	<b>8.10%</b>
<b>Compared with the pay levels in 2001 (%) change</b>	<b>30%</b>	<b>15%</b>	<b>8%</b>	<b>50%</b>	<b>42%</b>	<b>38%</b>	<b>-</b>

The following points are of note:

- (a) there has been a clear and substantial increase in all pay elements for senior executives over the last ten years. For example, the median of the base salary increased by over 22% and the median of the variable pay by 103% over the period;
- (b) in terms of the total direct compensation, the median in the current survey (\$6,535,000) is 8% higher than that in 2001(\$6,045,000), while the average figure (\$9,508,844) is 38% higher than that in 2001(\$6,889,000).

## 5. RECOMMENDATIONS

### 5.1. FACTORS TAKEN INTO ACCOUNT IN REVIEWING THE LEVELS OF REMUNERATION FOR PAOs

In reviewing the levels of remuneration for PAOs, we have taken into account the following:

#### (a) Performance of the Hong Kong Economy and Change in Cost of Living

A review of the macro-economic indicators shows that the Hong Kong economy has continued to expand in the last nine years despite the ups and downs. From 2002 to 2011, the cumulative growth in GDP in real terms is 52.4%. On the other hand, the inflationary pressure has been on the rise in recent years, the cumulated increase in Composite CPI for the period is 15.2%.

Year	GDP (In chained (2009) dollars) (HK\$ million)	Composite CPI (%)
2002	1,195,910	-3.0
2003	1,231,859	-2.6
2004	1,336,156	-0.4
2005	1,430,785	+1.0
2006	1,531,222	+2.0
2007	1,629,058	+2.0
2008	1,666,629	+4.3
2009	1,622,516	+0.5
2010	1,736,773	+2.4
2011	1,823,129	+5.3
<b>Aggregate Increase</b>	<b>52.4%</b>	<b>15.2%</b>

Source: Census and Statistics Department, HKSARG

#### (b) Market Pay Rates

According to the findings of our survey as set out in Chapter 4, the average pay for senior executives has increased by 38% over the past ten years.

On the overall performance of the labour market, according to Aon Hewitt's survey on general industries, the average salary showed an increase of over 34% from 2001 to 2011.



<b>Year</b>	<b>Salary Increase</b>
<b>2001</b>	3.90%
<b>2002</b>	1.60%
<b>2003</b>	1.60%
<b>2004</b>	1.60%
<b>2005</b>	2.90%
<b>2006</b>	3.80%
<b>2007</b>	4.20%
<b>2008</b>	5.20%
<b>2009</b>	1.40%
<b>2010</b>	3.10%
<b>2011</b>	4.70%
<b>Aggregate Increase</b>	<b>34.0%</b>

*Source: Aon Hewitt Salary Increase Survey (Hong Kong)*

### **(c) Roles and Employment Packages of the PAOs**

POs are the most senior officials of the HKSARG. They are responsible for their respective portfolios designated to them by the Chief Executive and lead the executive departments within their respective portfolios.

POs, together with their deputies and political assistants, are also responsible for explaining and defending government policies as well as canvassing support from the public and the LegCo. They are accountable to the Chief Executive and the public for the success or failure of their policies.

We are of the view that the remuneration packages for PAOs should be competitive in order to attract talents from different sectors of the community to join the political team.

Our recommendations are set out in the following paragraphs.

#### **5.2. CASH REMUNERATION**

##### **DoBs**

The pay level of DoBs is the anchor of the current pay structure for the PAOs.

When the Political Appointment System was introduced in 2002, the range of cash remuneration recommended by the consultant for DoBs (\$3,662,000 to \$3,995,000 per annum) represented a discount of 34% to 39% of the median level of total direct compensation of the 56 CEOs covered in a market survey. The final pay level for DoBs (\$3,742,800 per annum or \$311,900 per month) represented a discount of 38.1% of the reference point of \$6,045,000 per annum. It was between the 15<sup>th</sup> and 20<sup>th</sup> percentile of the total direct remuneration of the CEOs surveyed (\$3,484,000 per annum and \$4,477,000 per annum respectively) in the 2001 consultancy study.

For the sake of consistency, we consider it appropriate to apply the same discount factor to the current reference point of \$6,535,000 (the median of the total direct compensation of Rank 1 executives) and recommend an annual pay of **\$4,045,165 (or \$4,045,200 per annum when rounded up to the nearest 50 dollars) or \$337,100 per month for DoBs<sup>26</sup>** serving in the fourth-term HKSARG. This proposed level of pay falls between the 10<sup>th</sup> (\$3,386,574 per annum) and 15<sup>th</sup> percentile (\$4,365,786 per annum) of the total direct compensation for the Rank 1 executives in the current study.

We consider that the proposed level of pay is reasonable for the following reasons:

- (a) the proposed increase is moderate taking into account the performance of the Hong Kong's economy and change in cost of living over the past 10 years;
- (b) the proposed level of pay falls below the 15<sup>th</sup> percentile of the total direct compensation of the Rank 1 executives surveyed and the median of the total direct compensation for executives under Rank 2 (\$4,184,671 per annum).

### **Secretaries of Department**

At present, the pay differential between DoBs, SJ, FS and CS is 3.5%. Assuming that there is no substantial change in the division of responsibilities between DoBs and three Secretaries of Department, we consider it appropriate and recommend that the 3.5% differential be maintained for the fourth-term HKSARG.

Under this proposed arrangement, the cash remuneration for SJ, FS and CS serving in the fourth-term HKSARG will be \$4,186,800 (or \$348,900 per month<sup>27</sup>), \$4,333,320 (or \$361,110 per month<sup>28</sup>) and \$4,485,000 (or \$373,750 per month<sup>29</sup>) per annum respectively.

### **Under Secretaries**

The remuneration for Under Secretaries is currently pitched at a range equivalent to 65% to 75% of the remuneration for a DoB. We consider this pay range appropriate and do not recommend any change to the pay range for the Under Secretaries serving in the fourth-term HKSARG.

Under this proposed arrangement, the pay range for Under Secretaries will be between \$2,629,380 and \$3,033,900 (or \$219,115 - \$252,825 per month<sup>30</sup>), which is between the 10<sup>th</sup> (\$2,400,092 per annum) and 25<sup>th</sup> percentile (\$3,212,090 per annum) of the total direct compensation for the Rank 2 executives in the current study and above the median of the total direct compensation for the Rank 3 executives (\$2,386,727 per annum).

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<sup>26</sup> The remuneration package for DoBs is applicable to the Director of the Chief Executive's Office.

<sup>27</sup> Rounded up to the nearest 5 dollars.

<sup>28</sup> Rounded up to the nearest 5 dollars.

<sup>29</sup> Rounded up to the nearest 5 dollars.

<sup>30</sup> Rounded up to the nearest 5 dollars.

## **Political Assistants**

The remuneration for Political Assistants is currently pitched at a range equivalent to 35% to 55% of the remuneration for a DoB. The mid point, 45%, represents a 25% discount of the remuneration for the second tier of PAOs (i.e. the Under Secretaries). The remuneration for Under Secretaries is 30% below that for the top tier of PAOs (i.e. DoBs).

Moreover, in view of the proposed increase in the cash remuneration for DoBs and the views of the public regarding the roles of Political Assistants serving in the fourth-term HKSARG, we consider it more appropriate for the pay range for political assistants to be adjusted to 25 to 35% of DoBs' pay.

Under this proposed arrangement, the pay range for Political Assistants will be between \$1,011,300 and \$1,415,820 (or \$84,275 - \$117,985 per month<sup>31</sup>), which is between the 10th percentile (\$968,134 per annum) and the median (\$1,500,000 per annum) of the total direct compensation for the Rank 4 executives in the current study.

### **5.3. OTHER COMPONENTS OF THE REMUNERATION PACKAGE**

In addition to cash remuneration, the PAOs are also eligible for –

- (a) annual leave of 22 days per annum (subject to a maximum accumulation limit of 22 days);
- (b) medical and dental benefits on the same basis as those provided to civil servants during the term of their employment;
- (c) Mandatory Provident Fund contribution by the HKSARG; and
- (d) for CS, FS, SJ, DoBs and Director of the Chief Executive's Office, a car and driver for use at his/her discretion.

These are all in-line with our survey findings of the top executives. We recommend that the same measures be adopted for PAOs serving in the fourth-term HKSARG.

### **5.4. ANNUAL ADJUSTMENT MECHANISM**

We consider that the remuneration for PAOs should be adjusted annually in accordance with an objective indicator with effect from the fourth-term HKSARG. The following are two possible options:

- (a) Rate of Civil Service Pay Adjustment

Although PAOs are not civil servants, the public generally regards PAOs as part of the public servants. It may be appropriate for the PAOs' pay be adjusted in accordance with civil service pay.

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<sup>31</sup> Rounded up to the nearest 5 dollars.

(b) CPI

The CPI is an objective economic indicator reflecting the change in costs of living. It is also commonly used by private and public sectors for remuneration review. It may be appropriate for the PAOs' pay be adjusted in accordance with the CPI, as in the case of the Members of the LegCo and the Executive Council.

Other possible options include GDP and unemployment rate. However, we should recognise that GDP figures are subject to revisions over time, while unemployment rate is a lagging indicator that usually changes after the economy as a whole does. We do not recommend them for use as benchmark.

#### **5.5. REGULAR REMUNERATION REVIEW**

Apart from an annual adjustment mechanism, we also consider that the levels of remuneration for PAOs should be reviewed at regular intervals so that they can keep abreast of changes in the pay levels of the private and public sectors and the economy situation in Hong Kong. We note that one of the tasks of the Independent Commission is to "carries out periodic review of the remuneration package for Officials under the Political Appointment System, say once every five years and normally about a year before the start of a new term of the HKSAR Government". We agree that five years is an appropriate time frame for a review.

## 6. SUMMARY OF THE RECOMMENDATIONS

Rank	Approved by LegCo FC (per annum)	Existing level of remuneration (per annum)	Recommended level of remuneration (per annum)	Compa-Ratio	
	(HK\$)	(HK\$)	(HK\$)	Recommended/ Approved level	Recommended/ Existing level
CS	3,966,780	3,753,420	4,485,000	13.1%	19.5%
FS	3,832,620	3,626,460	4,333,320	13.1%	19.5%
SJ	3,703,020	3,503,820	4,186,800	13.1%	19.5%
DoBs	3,577,380	3,384,960	4,045,200	13.1%	19.5%
Under Secretaries	2,325,300	2,200,200	2,629,380	13.1%	19.5%
	-	-	-		
Political Assistants	2,683,020	2,538,720	3,033,900	-19.2%	-14.6%
	1,252,080	1,184,760	1,011,300		
Annual Adjustment Mechanism	-	-	Possible options include Rate of Civil Service Pay Adjustment and CPI	-	-
	1,967,520	1,861,680	1,415,820		
Regular Review	-	Once every five years	Once every five years	-	-

## APPENDIX A: INVITATION LIST

Company Name	Sector
1 Airport Authority Hong Kong	Public
2 CLP Holdings Limited	Public(Utilities)
3 Construction Industry Council	Public
4 Hong Kong Applied Science and Technology Research Institute Company Limited (ASTRI)	Public
5 Hong Kong Convention & Exhibition Centre	Public
6 Hong Kong Housing Society	Public
7 Hong Kong Monetary Authority	Public
8 Hong Kong Mortgage Corporation	Public
9 Hong Kong Productivity Council	Public
10 Hong Kong Science and Technology Parks Corporation	Public
11 Hong Kong Tourism Board	Public
12 Hong Kong Trade Development Council	Public
13 Hong Kong International Theme Park Limited	Public
14 Hospital Authority	Public
15 Mandatory Provident Fund Schemes Authority	Public
16 MTR Corporation Limited	Public
17 Ocean Park Corporation	Public
18 Power Assets Holdings Limited	Public(Utilities)
19 Securities & Futures Commission	Public
20 The Hong Kong and China Gas Co. Limited	Public(Utilities)
21 The Hong Kong Jockey Club	Public
22 Tung Wah Group of Hospitals	Public
23 Urban Renewal Authority	Public
24 West Kowloon Cultural District Authority	Public
25 Hong Kong Exchanges and Clearing Limited	Public
26 DDB Group Hong Kong	Advertising
27 Grey Hong Kong Limited	Advertising
28 Leo Burnett Hong Kong	Advertising
29 McCann Worldgroup Hong Kong Limited	Advertising
30 Ogilvy & Mather Hong Kong	Advertising
31 OMD Hong Kong	Advertising
32 Aedas	Architect
33 Ove Arup & Partners Hong Kong Limited	Architect
34 Dennis Lau and Ng Chun Man Architects and Engineers (Hong Kong) Limited	Architect
35 Leigh & Orange Limited	Architect
36 P&T Architects and Engineers Limited	Architect
37 Ronald Lu & Partners	Architect
38 PricewaterhouseCoopers International Limited	Auditing
39 Deloitte Touche Tohmatsu Limited	Auditing
40 Ernst & Young Asia-Pacific Limited	Auditing
41 KPMG International Cooperative	Auditing
42 Aoba CPA Limited	Auditing
43 Baker Tilly Hong Kong Limited	Auditing
44 Crowe Horwath (Hong Kong) CPA Limited	Auditing
45 HLB Hodgson Impey Cheng	Auditing
46 BDO Hong Kong	Auditing
47 Moore Stephens Hong Kong	Auditing
48 Burson-Marstellar Hong Kong	Communications
49 Hill & Knowlton Hong Kong	Communications
50 J Walter Thompson Hong Kong	Communications
51 Chevalier Corporate Management Limited	Construction/ Engineering

Company Name	Sector
52 ATAL Engineering Limited	Construction/ Engineering
53 Chun Wo Construction and Engineering Company Limited	Construction/ Engineering
54 Gammon Construction Limited	Construction/ Engineering
55 HAECO	Construction/ Engineering
56 Hsin Chong Construction Group Limited	Construction/ Engineering
57 Kum Shing Group	Construction/ Engineering
58 Shui On Construction and Materials Limited	Construction/ Engineering
59 The Jardine Engineering Corporation Limited	Construction/ Engineering
60 Yau Lee Holdings Limited	Construction/ Engineering
61 K.Wah Group	Construction/ Engineering
62 Accenture Company Limited – Hong Kong	Consulting (IT/Strategy/HR)
63 AT Kearney Asia Pacific	Consulting (IT/Strategy/HR)
64 Bain & Company (Hong Kong)	Consulting (IT/Strategy/HR)
65 Boston Consulting Group	Consulting (IT/Strategy/HR)
66 McKinsey & Company	Consulting (IT/Strategy/HR)
67 PA Consulting Group Limited	Consulting (IT/Strategy/HR)
68 Towers Watson Hong Kong Limited	Consulting (IT/Strategy/HR)
69 Mercer LLC	Consulting (IT/Strategy/HR)
70 Atkins China Limited	Engineering/Architecture/Surveying
71 Binnie Black & Veatch Hong Kong Limited	Engineering/Architecture/Surveying
72 Foster Partners Asia	Engineering/Architecture/Surveying
73 Halcrow China Limited	Engineering/Architecture/Surveying
74 AECOM Asia Co Limited	Engineering/Architecture/Surveying
75 Parsons Brinckerhoff (Asia)	Engineering/Architecture/Surveying
76 Scott Wilson Limited	Engineering/Architecture/Surveying
77 Skidmore Owings & Merrill	Engineering/Architecture/Surveying
78 Woo, Kwan, Lee & Lo	Law
79 Allen & Overy (Hong Kong)	Law
80 Baker & Mckenzie	Law
81 Clifford Chance LLP (Hong Kong)	Law
82 Deacons Hong Kong	Law
83 DLA Piper Hong Kong	Law
84 Gallant Y.T. Ho & Co.	Law
85 Linklaters Hong Kong	Law
86 Mayer Brown JSM	Law
87 Morrison & Foerster Hong Kong	Law
88 Norton Rose Hong Kong	Law
89 Orrick Hong Kong	Law
90 P.C Woo & Co.	Law
91 Slaughter and May	Law
92 Tsang, Chan & Wong, Solicitors, Notaries, Agents for Trade Marks and Patents	Law
93 Paul, Weiss, Rifkind, Wharton & Garrison	Law
94 Reed Smith Richard Butler	Law
95 Simmons & Simmons	Law
96 Centaline Properties	Real Estate
97 Knight Frank Hong Kong Limited	Real Estate
98 FPD Savills Hong Kong Limited	Real Estate
99 Vigers Hong Kong Limited	Real Estate
100 Manifold Consultancy Co. Limited	Recruiting/ Headhunting
101 Manpower Services (Hong Kong) Limited	Recruiting/ Headhunting
102 Michael Page International	Recruiting/ Headhunting
103 Morgan McKinley Limited	Recruiting/ Headhunting
104 Pacific Bridge, Inc.	Recruiting/ Headhunting
105 Ross Recruitment Limited	Recruiting/ Headhunting

Company Name	Sector
106 CB Richard Ellis Limited	Surveying
107 Colliers International (Hong Kong) Limited	Surveying
108 Jones Lang LaSalle Limited	Surveying
109 Rider Levett Bucknall	Surveying
110 Bank of China (Hong Kong) Limited	Bank
111 Bank of East Asia	Bank
112 China Construction Bank (Asia) Corporation Limited	Bank
113 DBS Bank (Hong Kong) Limited	Bank
114 Hang Seng Bank Limited	Bank
115 HSBC	Bank
116 Industrial and Commercial Bank of China (Asia) Limited	Bank
117 Standard Chartered Bank (Hong Kong) Limited	Bank
118 DuPont China	Chemical
119 Citic Pacific Limited	Conglomerate
120 Hutchison Whampoa Limited	Conglomerate
121 Jardine Matheson Holdings	Conglomerate
122 Swire Pacific Limited (John Swire & Sons)	Conglomerate
123 The Wharf (Holdings) Limited	Conglomerate
124 Sime Darby Hong Kong Limited	Diversified Companies
125 Wheelock and Co. Limited	Diversified Companies
126 Bank of America Merrill Lynch	Financial Services
127 Credit Suisse Ag Hong Kong Branch	Financial Services
128 Goldman Sachs (Asia)	Financial Services
129 JP Morgan	Financial Services
130 Morgan Stanley	Financial Services
131 The Royal Bank of Scotland Hong Kong	Financial Services
132 UBS AG	Financial Services
133 3M Hong Kong Limited	FMCG
134 Amoy Food Limited	FMCG
135 British American Tobacco Hong Kong	FMCG
136 Carlsberg Brewery Hong Kong Limited	FMCG
137 Johnson & Johnson (Hong Kong) Limited	FMCG
138 JT International (Asia Pacific) Limited	FMCG
139 Kimberly-Clark Corporation	FMCG
140 LVMH Group	FMCG
141 Nestle Hong Kong Limited	FMCG
142 PepsiCo Inc	FMCG
143 Philip Morris Asia Limited	FMCG
144 Procter & Gamble Hong Kong Limited	FMCG
145 Swire Coca-Cola Hong Kong	FMCG
146 Vitasoy International Holdings Limited	FMCG
147 Café De Coral Holdings Limited	Food & Restaurants
148 Fairwood Holdings Limited	Food & Restaurants
149 Maxim Caterers Limited	Food & Restaurants
150 McDonald's Restaurants (Hong Kong) Limited	Food & Restaurants
151 Apple Asia Limited	Hi-Tech
152 AT&T Asia/Pacific Group Limited	Hi-Tech
153 Google (Hong Kong) Limited	Hi-Tech
154 IBM China/Hong Kong Limited	Hi-Tech
155 Intel Semiconductor Limited	Hi-Tech
156 Microsoft Hong Kong Limited	Hi-Tech
157 Nokia (Hong Kong) Limited	Hi-Tech
158 Samsung Hong Kong Limited	Hi-Tech
159 Sony Corporation of Hong Kong Limited	Hi-Tech



<b>Company Name</b>	<b>Sector</b>
160 Hyatt Hotels Corporation	Hotel
161 InterContinental Hotels Group	Hotel
162 Shangri-La International Hotel Management Limited	Hotel
163 The Hong Kong and Shanghai Hotels Limited	Hotel
164 Johnson Electric Holdings Limited	Industrial
165 SAE Magnetics (Hong Kong) Limited	Industrial
166 AIA Group Limited	Insurance
167 AXA General Insurance Hong Kong Limited	Insurance
168 China Life Insurance Co. Limited	Insurance
169 HSBC Insurance (Asia) Limited	Insurance
170 ING Life Insurance Company (Bermuda) Limited	Insurance
171 Manulife Financial Corporation	Insurance
172 Ping An Insurance (Group) Co. of China Limited	Insurance
173 Prudential Corporation Asia	Insurance
174 Swiss Reinsurance Company Limited	Insurance
175 Allianz Insurance (Hong Kong) Limited	Insurance
176 Ageas Insurance Company (Asia) Limited	Insurance
177 Sun Life Hong Kong Limited	Insurance
178 SCMP Group Limited	Media and Entertainment
179 Television Broadcasts Limited	Media and Entertainment
180 BP Hong Kong Limited	Oil and Gas
181 Chevron Companies (Greater China) Limited	Oil and Gas
182 ExxonMobil Hong Kong Limited	Oil and Gas
183 Shell Hong Kong Limited	Oil and Gas
184 Quality HealthCare Asia Limited	Others
185 GlaxoSmithKline Limited	Pharma
186 Merck Sharp & Dohme (Asia) Limited	Pharma
187 Pfizer Corporation Hong Kong Limited	Pharma
188 Cheung Kong (Holdings) Limited	Properties
189 Great Eagle Properties Holdings Co. Limited	Properties
190 Hang Lung Properties Limited	Properties
191 Henderson Land Development Co. Limited	Properties
192 Hong Kong Land Company, Limited	Properties
193 Hopewell Holdings Limited	Properties
194 Hysan Development Co. Limited	Properties
195 Kerry Properties Limited	Properties
196 Sino Land Co. Limited	Properties
197 Sun Hung Kai Properties Limited	Properties
198 Swire Properties Limited	Properties
199 A. S. Watson Group (Hong Kong) Limited	Retail
200 Adidas Hong Kong Limited	Retail
201 Belle International Holdings Limited	Retail
202 Bossini Enterprises Limited	Retail
203 Dah Chong Hong Holdings Limited	Retail
204 Dairy Farm International Holdings Limited	Retail
205 Esprit Holdings Limited	Retail
206 G2000 (Apparel) Limited	Retail
207 Giordano Limited	Retail
208 Lane Crawford (Hong Kong) Limited	Retail
209 Li & Fung Limited	Retail
210 Nike, Inc.	Retail
211 Shun Hing Electronic Trading Co., Limited	Retail
212 Alcatel-Lucent China	Telecommunications
213 City Telecom (Hong Kong) Limited	Telecommunications

<b>Company Name</b>	<b>Sector</b>
214 Hutchison Telecommunications Hong Kong Holdings Limited	Telecommunications
215 i-CABLE Communication Limited	Telecommunications
216 New World Telecommunications Limited	Telecommunications
217 Nortel Networks (Asia Pacific)	Telecommunications
218 PCCW Limited	Telecommunications
219 Siemens	Telecommunications
220 Wharf T&T Limited	Telecommunications
221 Cathay Pacific Airways Limited	Transportation & Logistics
222 DHL International Hong Kong	Transportation & Logistics
223 Federal Express (Hong Kong) Limited	Transportation & Logistics
224 Hong Kong Air Cargo Terminals Limited (HACTL)	Transportation & Logistics
225 Modern Terminals Limited	Transportation & Logistics
226 NWS Holdings Limited	Transportation & Logistics
227 Orient Overseas Container Line Limited	Transportation & Logistics
228 The Kowloon Motor Bus Co. (1933) Limited	Transportation & Logistics
229 UPS Parcel Delivery Service Limited	Transportation & Logistics

## APPENDIX B: PARTICIPATING COMPANIES/ORGANISATIONS

Company Name		Sector
1	CLP Holdings Limited	Public
2	Construction Industry Council	Public
3	Mandatory Provident Fund Schemes Authority	Public
4	Hong Kong Tourism Board	Public
5	The Hong Kong Mortgage Corporation Limited	Public
6	MTR Corporation Limited	Public
7	Ocean Park Corporation	Public
8	Hong Kong Science and Technology Parks Corporation	Public
9	Tung Wah Group of Hospitals	Public
10	The Hong Kong Jockey Club	Public
11	Hong Kong Exchanges and Clearing Limited	Public
12	Hong Kong Applied Science and Technology Research Institute Company Limited (ASTRI)	Public
13	Hong Kong Productivity Council	Public
14	Hong Kong Trade Development Council	Public
15	The Hong Kong and China Gas Co. Limited	Public
16	West Kowloon Cultural District Authority	Public
17	Hong Kong Monetary Authority	Public
18	Hospital Authority	Public
19	Securities & Futures Commission	Public
20	Hong Kong International Theme Park Limited	Public
21	Urban Renewal Authority	Public
22	Hong Kong Housing Society	Public
23	Power Assets Holdings Limited	Public
24	Airport Authority Hong Kong	Public
25	Baker Tilly Hong Kong Limited	Auditing
26	Crowe Horwath (Hong Kong) CPA Limited	Auditing
27	Ogilvy & Mather Hong Kong Limited	Advertising
28	Atkins China Limited	Engineer/Architecture/Surveying
29	Scott Wilson Limited	Engineer/Architecture/Surveying
30	Binnie Black & Veatch Hong Kong Limited	Engineer/Architecture/Surveying
31	Woo, Kwan, Lee & Lo	Law

<b>Company Name</b>		<b>Sector</b>
32	Ross Recruitment Limited	Recruitment/Headhunting
33	Hopewell Holdings Limited	Properties
34	Hang Lung Properties Limited	Properties
35	SAE Magnetics (Hong Kong) Limited	Industrial
36	Shui On Construction and Materials Limited	Construction/ Engineering
37	The Jardine Engineering Corporation Limited	Construction/ Engineering
38	HAECO	Construction/ Engineering
39	Gammon Construction Limited	Construction/ Engineering
40	Hsin Chong Construction Group Limited	Construction/ Engineering
41	Yau Lee Holdings Limited	Construction/ Engineering
42	ATAL Engineering Limited	Construction/ Engineering
43	Chevalier Corporate Management Limited	Construction/ Engineering
44	HSBC	Bank
45	Hang Seng Bank Limited	Bank
46	Standard Chartered Bank (Hong Kong) Limited	Bank
47	Bank of China (Hong Kong) Limited	Bank
48	China Construction Bank (Asia) Corporation Limited	Bank
49	The Royal Bank of Scotland Hong Kong	Financial Service
50	Amoy Food Limited	FMCG
51	Carlsberg Brewery Hong Kong Limited	FMCG
52	CITIC Pacific Limited	Conglomerate
53	Jardine Matheson Holdings	Conglomerate
54	Cathay Pacific Airways Limited	Transportation & Logistics
55	Modern Terminals Limited	Transportation & Logistics
56	Hong Kong Air Cargo Terminals Limited (HACTL)	Transportation & Logistics
57	Orient Overseas Container Line Limited	Transportation & Logistics
58	Television Broadcasts Limited	Media and Entertainment
59	McDonald's Restaurants (Hong Kong) Limited	Food & Restaurants
60	HSBC Insurance (Asia) Limited	Insurance
61	Manulife Financial Corporation	Insurance
62	Swiss Reinsurance Company Limited	Insurance
63	G2000 (Apparel) Limited	Retail
64	Dairy Farm International Holdings Limited	Retail

## APPENDIX C: LTI VALUATION METHODOLOGY

Aon Hewitt used **Black-Scholes Model** in the valuation of long term incentive (LTI) provided by the participating organizations. It is a popular method and commonly used in the valuation of stock options.

Black-Scholes model shows that it is possible to create a hedged position, consisting of a long position in the stock and a short position in the option, whose value will not depend on the price of the stock. In apply the model, following assumptions need to be made:

- There is no way to make a risk-less profit (no arbitrage opportunity).
- It is possible to borrow and lend cash at a known constant risk-free interest rate.
- It is possible to buy and sell any amount, even fractional of stock (this includes short selling).
- The transactions do not incur any significant fees or costs. (i.e., frictionless market).
- The stock price follows a geometric Brownian motion with constant drift and volatility.

Although there are expanded modern models which removed several of these assumptions by accounting for changing interest rates and transaction cost, each expanded models has their criteria and assumed parameters/ factors need to be made and therefore make the formula unnecessary complicated but with small differences in the valuation results. As the provision of LTI is not prevalent among the participants, Black-Scholes Model is sufficiently accurate for the purposes of this analysis.

### Black Scholes Pricing Formula

$$C = SN(d_1) - Xe^{-r(T-t)}N(d_2)$$

Where

$$d_1 = [\ln(S/X) + (r + s^2/2)(T-t)] / s(T-t)^{1/2}$$

$$d_2 = d_1 - s(T-t)^{1/2}$$

c=call option price

S = current stock price

X = exercise price

$Xe^{-r(T-t)}$  = continuously compounded risk free rate

s = volatility rate (standard deviation of stock price returns)

T = maturity date

t = date option is being valued

N(x) = cumulative probability distribution function for a standardized normal variable.

As listed above, there are six inputs to the Black-Scholes model where 4 inputs are directly related to the option price (market value of the stock, risk free rate, time to expiration, and volatility) and 2 are inversely related to option values (exercise price and dividend yield). In the valuation of our study, only the LTIs granted in the year of 2011 are taken into the analysis. The residual value or number of shares carried forward from past years is outside the scope of valuation. Risk-free rate was set at 2% and vesting period at 5 years. Other parameters and information were provided either in the data collection pack or from the latest public information.

## APPENDIX D: JOB EVALUATION FACTOR DEFINITIONS

Factors and the Levels Descriptors in the Questionnaire that are applied to differentiate the positions are:

<b>Knowledge</b> <b>(The total know-how and experience required for the job)</b>	<b>Application</b> <b>(The level to which the Knowledge is applied by this position)</b>	<b>Problem Solving</b>	<b>Interaction</b> <b>(The level of influence and the communication and interpersonal skill needed)</b>
<p>1. Several Disciplines - Broad knowledge of several related disciplines within a function</p> <p>2. Single Function - Broad, extensive knowledge within a functional area (of theories and techniques) and its interrelationship with other functional areas</p> <p>3. Diverse - Advanced knowledge of several diverse functions and able to integrate them</p>	<p>1. Understanding - Act under existing guidelines</p> <p>2. Integrating - Principles based. Can develop new policies</p> <p>3. Mastery - Develop new principles (strategic or technical)</p>	<p>1. Broad - Solutions needs to consider multiple perspectives and future implications</p> <p>2. Complex - Requires judgment to devise and apply new solutions and concepts</p> <p>3. Highly Complex - Solutions have broad impact on organizational policy</p> <p>4. Novel - Solutions have long-term and strategic impact on either the organization, the profession, or both</p>	<p>1. Influence - Communicate complex issues or diverse audience perspectives</p> <p>2. Negotiation - Develops communication strategies and resolves conflicts</p> <p>3. Strategic Negotiation - Represents overall organization, manages strategic communications/decisions</p>

<b>Organization Impact</b> <b>(The position's impact on business objectives.)</b>	<b>Personal Impact</b> <b>(The sphere of influence and the time-horizon of the position's impact)</b>	<b>Accountability</b> <b>The position is considered to have direct impact if it is responsible for the development, creation or delivery of the product or services the organisation provides.</b> <b>It is generally considered indirect if the delivery is through other staff or subordinates.</b>	
1. Function Head - Single Business Line 2. Function Head - Multiple Business Lines 3. Business Head - Single Business Line 4. Business Head - Multiple Business Lines	1. Execution - Execute operational plans, medium-term goals 2. Operational Planning - Execute strategic plans, medium-term goals 3. Strategic Planning - Translates vision into plans and guides their execution, medium- to long-term goals 4. Visionary Development - Sets the vision and guides the achievement of goals. Impacts long-term goals	1. Revenue - Direct 2. Revenue - Indirect 3. Operating Budget - Direct 4. Operating Budget - Indirect	Revenue or Budget Size Accountable

**Performance of Hong Kong's Economy vs  
Pay Adjustment for Civil Servants in the Upper Salary Band  
And PAOs for the period from 2002 to 2011**

Financial Year (Apr Y1 – Mar Y2)	Civil Servants in the Upper Salary Band	PAOs	Economic Indicators		
	Actual Pay Adjustment (%)	Actual Pay Adjustment (%)	Calendar Year (Yn vs Yn+1)	Change in CPI (C) (%)	Change in GDP (In chained (2009) dollars) (%)
2002-03 *	-4.42 (w.e.f. 1.10.2002)	-4.42 # (w.e.f. 1.10.2002)	2002	-2.8	1.8
2003-04	-3.01 (w.e.f. 1.1.2004)	-10.00 ## (w.e.f. 1.4.2003)	2003	-2.9	3.0
2004-05	-3.10 (w.e.f. 1.1.2005)	—	2004	-0.9	8.5
2005-06	—	—	2005	+0.8	7.1
2006-07	—	—	2006	+2.2	7.0
2007-08	4.96	11.10 ### (w.e.f. 1.7.2007)	2007	+2.7	6.4
2008-09	6.30	—	2008	+4.7	2.3
2009-10	-5.38 (w.e.f. 1.1.2010)	-5.38 #### (w.e.f. 1.7.2009)	2009	+0.6	-2.6
2010-11	1.60	—	2010	+2.1	7.0
2011-12	7.24	—	2011	+5.1	5.0
			<b>Cumulative change</b>	<b>15.3</b>	<b>52.4</b>

\* The Political Appointment System was introduced on 1 July 2002.

# The remuneration for PAOs was reduced along with the civil service pay adjustment as approved by FC.

## PAOs accepted a voluntary pay reduction of 10%.

### The remuneration for PAOs was 'restored' with effect from 1 July 2007 to the level approved by the LegCo FC in 2002.

#### PAOs accepted a voluntary pay reduction of 5.38% which is still effective today.



**Remuneration Package for the PAOs  
Serving in the Fourth-Term HKSARG (2012-2017)**

**(1) Cash Remuneration**

Rank	Monthly Remuneration		Annual Remuneration		Pay differential after implementing recommendation
	Amount approved by the LegCo FC as at 1.4.2012 (HK\$)	Recommended to take effect from 1 July 2012 (HK\$) *	Amount approved by the LegCo FC as at 1.4.2012 (HK\$)	Recommended to take effect from 1 July 2012 (HK\$)	
CS	330,565	381,110	3,966,780	4,573,320	3.5% above FS
FS	319,385	368,220	3,832,620	4,418,640	3.5% above SJ
SJ	308,585	355,765	3,703,020	4,269,180	3.5% above DoBs
DCS	-	349,745	-	4,196,940	1.75% above DoBs
DFS					
DoBs	298,115	343,730	3,577,380	4,124,760	-
Director of the CE's Office					
Under Secretaries	193,775 - 223,585	240,615	2,325,300 - 2,683,020	2,887,380	70% of DoBs' pay
Political Assistants	104,340 - 163,960	100,000#	1,252,080 - 1,967,520	1,200,000#	30% of DoBs' pay

\* Rounded up to the nearest \$5.

# the total remuneration for Political Assistants engaged by each of the Secretaries of Departments, Deputy Secretaries of Departments and DoBs (except the SJ and the Secretary for the Civil Service) should be capped at \$1.2 million per annum (or capped at \$100,000 per month).

## **(2) Other Items**

In addition to cash remuneration, PAOs are eligible for –

- (a) annual leave of 22 days per annum, subject to a maximum accumulation limit of 22 days during their term of appointment. The leave balance accrued up to and including the end date of the appointment of PAOs can be encashed;
- (b) medical and dental benefits on the same basis as those provided to civil servants during the term of their employment;
- (c) Mandatory Provident Fund contribution by the Government;
- (d) use of a car and driver when in Hong Kong at his discretion for each of the Secretaries of Departments, Deputy Secretaries of Departments, and DoBs as well as for the Director of the Chief Executive's Office. Departmental transport for Under Secretaries is provided by relevant policy bureaux/offices from their internal resources; and
- (e) an official residence and an non-accountable entertainment allowance for each of the Secretaries of Departments.