

ITEM FOR FINANCE COMMITTEE

- HEAD 21 - CHIEF EXECUTIVE'S OFFICE**
- HEAD 143 - GOVERNMENT SECRETARIAT :
CIVIL SERVICE BUREAU**
- HEAD 152 - GOVERNMENT SECRETARIAT :
COMMERCE AND ECONOMIC DEVELOPMENT
BUREAU (COMMERCE, INDUSTRY AND TOURISM
BRANCH)**
- HEAD 144 - GOVERNMENT SECRETARIAT :
CONSTITUTIONAL AND MAINLAND AFFAIRS
BUREAU**
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- HEAD 147 - GOVERNMENT SECRETARIAT :
FINANCIAL SERVICES AND THE TREASURY
BUREAU (THE TREASURY BRANCH)**
- HEAD 139 - GOVERNMENT SECRETARIAT :
FOOD AND HEALTH BUREAU (FOOD BRANCH)**
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**HEAD 141 - GOVERNMENT SECRETARIAT :
LABOUR AND WELFARE BUREAU**

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

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

**HEAD 158 - GOVERNMENT SECRETARIAT :
TRANSPORT AND HOUSING BUREAU
(TRANSPORT BRANCH)**

Subhead 000 Operational Expenses

Members are invited to approve –

- (a) the proposed increase in cash remuneration for politically-appointed officials¹ according to the cumulative change in Consumer Price Index (C) from 2012 to 2016² with effect from 1 July 2017; and
- (b) the proposed annual adjustment mechanism for the cash remuneration for politically-appointed officials in accordance with the change in the average annual Consumer Price Index (C) with effect from 1 July 2018 (details are in paragraph 12).

/PROBLEM

¹ Politically-appointed officials (PAOs) mean officials under the Political Appointment System. For the fourth-term HKSAR Government, the team of PAOs comprises 43 positions, namely three Secretaries of Department, 13 Directors of Bureau, 1 Director of the Chief Executive's Office (whose terms of employment should align with a Director of Bureau as approved by the Finance Committee (FC) of the Legislative Council in June 2007), 12 Deputy Directors of Bureau and 14 Political Assistants.

² It is estimated that the cumulative change from 2012 to 2016 is about 12.4%. The actual percentage change will be calculated and confirmed on the basis of the actual 2016 Consumer Price Index (C) figure.

PROBLEM

We need to review the remuneration package for politically-appointed officials (PAOs) serving in the fifth-term of the HKSAR Government (HKSARG) taking into account the real value of the purchasing power of PAOs' cash remuneration and the need to put in place an objective and transparent adjustment mechanism to ensure that the cash remuneration for PAOs is in line with movements in the economy.

PROPOSAL

2. We propose that –

- (a) with effect from 1 July 2017, the cash remuneration for PAOs³ be adjusted according to the cumulative change in Consumer Price Index (C) (CPI(C)) from 2012 to 2016; and
- (b) with effect from 1 July 2018, the cash remuneration for PAOs as approved by the Finance Committee (FC) of the Legislative Council (LegCo) be adjusted on an annual basis in accordance with the change in the average annual CPI(C) (details are in paragraph 12).

JUSTIFICATION**The Review**

3. With the fifth-term HKSARG due to assume office in July 2017, 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) 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 fifth-term HKSARG. A copy of the Independent Commission's report is at Enclosure 1. The current and recommended cash remuneration for PAOs are set out in Enclosure 2. The key deliberations and recommendations of the Independent Commission concerning the proposed adjustment of the cash remuneration and the annual adjustment mechanism as set out at paragraph 2(a) and (b) above are illustrated in the ensuing paragraphs.

Encl. 1
Encl. 2

/General

³ The cash remuneration for the existing positions of PAOs was approved by the FC in 2002 and 2007.

General Principles and Considerations

4. During the review process, the Independent Commission has paid due regard to the following general principles and considerations –

- (a) performance of Hong Kong's economy;
- (b) changes in the CPI(C); and
- (c) the principle that remuneration for PAOs should be commensurate with their responsibilities.

Deliberations of the Independent Commission*Cash remuneration for Directors of Bureau (DoBs)*

5. The Independent Commission notes that the prevailing cash remuneration for a DoB –

- (a) is the same as in 2002 when the Political Appointment System was first introduced, and no adjustment to the remuneration level has been made since then;
- (b) does not reflect the economic growth or the cumulative increase in the CPI(C) since 2002;
- (c) has fallen behind the prevailing level of public sector pay. The Independent Commission considers that the remuneration of DoBs should be set at a reasonable level when compared with heads of statutory and other public bodies, as the latter could be seen as competing for similarly high calibre talents who wish to engage in public service;
- (d) has fallen behind increases in the private sector pay. The Independent Commission notes that there is a significant difference in the pay of chief executive officers (CEOs) of listed companies and that of DoBs, although the Independent Commission also notes that the community may not accept DoBs to be paid on a par with CEOs of listed companies;
- (e) is not commensurate with the level of responsibility for DoBs. It has been increasingly challenging for DoBs to carry out their duties under the prevailing social, economic and political environment. Indeed, the remuneration for PAOs should be pitched at an attractive level to facilitate the recruitment and retention of high calibre talents to serve such important positions in the HKSARG; and

/(f)

- (f) has fallen behind the remuneration for permanent secretaries in the civil service. Since DoBs are ultimately responsible for the designated policy portfolios and accountable for the performance of the underpinning executive departments, as a matter of principle, the remuneration of DoBs should not lag behind the senior civil servants that DoBs are working with.

6. On the other hand, the Independent Commission recognises that the community generally considers that DoB appointments come with great honour and thus cash remuneration should not be the primary incentive for attracting high calibre talents to take up such appointments.

7. Taking all factors into consideration, the Independent Commission recommends that the cash remuneration for DoBs for the fifth-term HKSARG should be increased by 12.4%⁴ starting from 1 July 2017, which is equivalent to the cumulative change in the CPI(C) from 2012 to 2016 (the figure for 2016 is estimated to be 2.5%). This would compensate for the erosion of purchasing power of a DoB's cash remuneration since 2012 when the Independent Commission completed its last review. Under the recommendation, the remuneration of other layers of PAOs (viz Secretaries of Departments (SoDs), Deputy Directors of Bureau (DDoBs) and Political Assistants (PAs)) would be adjusted accordingly in line with the existing differentiation percentages (details are in paragraphs 15(b) and 17).

Annual adjustment mechanism for the remuneration for PAOs

8. At present, there is no annual adjustment mechanism for the remuneration for PAOs. In fact, the pay levels of PAOs' remuneration have remained at the same level as approved in 2002 (or 2007 in the case of DDoBs and PAs). This means that the real value of the remuneration for PAOs has declined substantially over the years due to inflation. The Independent Commission considers it essential and of utmost importance to put in place an objective and transparent annual adjustment mechanism to ensure that the remuneration of PAOs in terms of purchasing power is maintained at an appropriate level and thus need to be adjusted in line with movements of inflation.

9. The Independent Commission notes that the remuneration of Members of the LegCo are adjusted in line with the movement of the CPI(C) on an annual basis. The CPI(C) is an objective and transparent economic indicator which

/measures

⁴ This figure is calculated basing on the latest estimate of the 2016 CPI(C). The actual percentage change will be calculated and confirmed upon availability of the actual 2016 CPI(C).

measures the changes over time in the price level of consumer goods and services generally purchased by households in the relatively high expenditure range, which should also be relevant to PAOs.

10. The Independent Commission recommends that the remuneration for PAOs should be adjusted annually in line with the movement of the CPI(C).

11. The Government has accepted the aforementioned recommendations of the Independent Commission.

Implementation of the Proposed Annual Adjustment Mechanism

12. Subject to the FC's approval of the proposed annual adjustment mechanism, the Government proposes that –

- (a) the cash remuneration for PAOs be adjusted on 1 July every year, with effect from 1 July 2018;
- (b) the adjustment be based on the change in the average CPI(C) for the 12 months ending May of Year_n when compared with that for the 12 months ending May of Year_{n-1}. This is in line with the existing arrangement adopted for LegCo Members⁵; and
- (c) the authority to approve the future annual adjustment to the level of cash remuneration for PAOs on the basis of the above proposed mechanism be delegated to the Permanent Secretary for Financial Services and the Treasury (Treasury).

FINANCIAL IMPLICATIONS

13. The proposed one-off adjustment, which is estimated to be 12.4% at this juncture, to the cash remuneration for PAOs would involve an extra \$13.8 million per annum, assuming no major change to the Government's organisation structure (see Enclosure 2). However, we will fine-tune the percentage increase when the actual CPI(C) figure for 2016 is available later this month. The subsequent annual adjustments following the CPI(C) movement could involve about \$1.3 million per annum for every percentage point increase/decrease. Subject to the approval of the FC, relevant provision will be reflected in the draft Estimates of Expenditure of the relevant financial years⁶.

/PUBLIC

⁵ The remuneration for LegCo Members is adjusted on an annual basis (in October every year) based on the change in the average CPI(C) for the 12 months ending August of Year_n when compared with that for the 12 months ending August of Year_{n-1}.

⁶ In accordance with FCR(2005-06)32, the cash remuneration of the Chief Executive of HKSAR will be accordingly adjusted after the cash remuneration of the Chief Secretary for Administration has been adjusted.

PUBLIC CONSULTATION

14. On 19 December 2016, we consulted the LegCo Panel on Constitutional Affairs on the proposals regarding the remuneration package for PAOs serving in the fifth-term HKSARG, including the proposal to introduce an annual adjustment mechanism for the remuneration for PAOs. They were informed of the Government's intention to seek the FC's approval in January 2017. Members expressed mixed views on the proposed remuneration package including the proposed annual adjustment mechanism. Some Members supported the proposals by stating that there was no increase in PAO's remuneration for 14 years since 2002; and that it was reasonable to introduce an annual adjustment mechanism similar to that for LegCo members. However, some Members criticised the performance of some current-term PAOs and expressed objection to any proposed increase in remuneration for the next-term PAOs. Views were divided and majority support from the Panel for the submission of the proposals to the FC for approval was not attained as a result of a tie vote (16 versus 16).

BACKGROUND

15. In 2002, the Government introduced the Political Appointment System, such that the positions of SoDs and DoBs will be filled by PAOs. The Government recommended, and the FC approved in June 2002, amongst other things –

- (a) setting the cash remuneration for DoBs at \$311,900 (subsequently adjusted to \$298,115 in accordance with civil service pay reduction on 1 October 2002) per month, which was equivalent to the annual weighted average costs to the taxpayer of the remuneration package for civil servants at Directorate Pay Scale Point 8 then; and
- (b) setting the pay differential between DoBs, Secretary for Justice, Financial Secretary and Chief Secretary for Administration (CS) at 3.5% for each tier.

In addition to cash remuneration, PAOs are eligible for other benefits. The Chief Executive (CE) may at his discretion order a review, from time to time, of the remuneration packages of PAOs. As stated in FCR(2002-03)21, the Government will seek the FC's approval for adjustments to the remuneration packages.

16. As approved by the FC on 18 November 2005 vide FCR(2005-06)32, the cash remuneration for CE has been pegged at 112.5% of that for CS with effect from 1 July 2007.

17. In 2007, the Political Appointment System was expanded with the creation of two additional layers of PAOs, namely, DDoBs and PAs. In December 2007, the FC approved vide FCR(2007-08)37 that the cash remuneration for these two new layers be set in two respective ranges as follows –

- (a) DDoB: at 65%, 70% or 75% of the cash remuneration for a DoB; and
- (b) PA: at 35%, 40%, 45%, 50% or 55% of the cash remuneration for a DoB.

Constitutional and Mainland Affairs Bureau
December 2016

**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 Fifth-Term HKSAR
Government**

November 2016

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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 Government on the remuneration package 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 fifth-term HKSAR Government (“HKSARG”) due to assume office in July 2017, 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 fifth-term HKSARG. The considerations and recommendations of the Independent Commission are set out in Chapters 2 to 6.

Background

1.3 Before the introduction of the Political Appointment System in July 2002¹, the Government commissioned a consultant to conduct a study and recommend an appropriate remuneration package for the PAOs. The consultant surveyed the remuneration of 56 chief executive officers (“CEOs”) in Hong Kong. The median remuneration package of the CEOs at that time was over \$6 million. The consultant recommended that a downward adjustment differential be considered and that the

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

remuneration package for Directors of Bureau (“DoBs”) be set between \$3.66 million and \$3.99 million, which fell 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).

1.4 Subsequently, for the purpose of setting the remuneration of DoBs and other senior officials under the Political Appointment System, the HKSARG made a decision to –

- (a) cap the value of the remuneration package for DoBs at \$3.76 million², 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 and the Secretaries of Department (“SoDs”), i.e., the Secretary for Justice (“SJ”), the Financial Secretary (“FS”) and the Chief Secretary for Administration (“CS”) at 3.5% for each tier.

1.5 The above proposals were approved by the LegCo Finance Committee (“FC”) in 2002³.

1.6 In 2007, the Political Appointment System was expanded with the creation of two additional layers of PAOs, namely Deputy Directors of Bureau (“DDoBs”) and Political Assistants (“PAs”). Based on the remuneration ranges approved by the LegCo FC, the cash remuneration for DDoBs is pitched at a range equivalent to 65% to 75%⁴

² The remuneration package for DoBs proposed by the Government comprised 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).

³ In accordance with the remuneration package approved by the LegCo FC in June 2002, the cash remuneration for DoBs would be subject to a downward 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.

⁴ The remuneration range for DDoBs was broadly equivalent to the remuneration of a D4 to D6 civil servant on agreement terms with all allowances and end-of-contract gratuity encashed.

of that for a DoB. As regards PAs, their cash remuneration is pitched at a range equivalent to 35% to 55%⁵ of that for a DoB.

1.7 As at November 2016, the Political Appointment System comprises 43 positions⁶, of which 41 are filled.

Remuneration Package for PAOs

Cash Remuneration

1.8 The current monthly cash remuneration for SoDs and DoBs has remained at the same level as approved by the LegCo FC in 2002, and that for DDoBs and PAs in 2007. Details are tabulated as follows –

Position	Monthly cash remuneration approved by the LegCo FC (HK\$)
Since 2002	
CS	330,565
FS	319,385
SJ	308,585
DoBs	298,115
Director of the CE's Office	
Since 2007	
DDoBs	193,775 - 223,585
PAs	104,340 - 163,960

⁵ The remuneration range for PAs was 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.

⁶ The current 43 PAO positions comprise 3 SoDs, 13 DoBs, 1 Director of the CE's Office, 12 DDoBs and 14 PAs (two of these posts are vacant).

Other Benefits

1.9 In addition to cash remuneration, the other components of the remuneration package for PAOs are detailed at paragraph 5.1 below.

Adjustment to the PAOs' Remuneration

1.10 There is no annual adjustment mechanism for PAOs' remuneration. On the contrary, there had been two occasions of voluntary pay reduction by PAOs, namely, –

- (a) 10% voluntary reduction since 1 April 2003 (subsequently restored on 1 July 2007); and
- (b) 5.38% voluntary reduction since 1 July 2009 (subsequently restored on 1 February 2015).

In the absence of an annual adjustment mechanism, the current monthly cash remuneration has remained the same as that approved by the LegCo FC in 2002 or 2007 for different layers of PAOs.

CHAPTER 2: GENERAL PRINCIPLES AND CONSIDERATIONS

General Principles and Considerations

2.1 During the review process, the Independent Commission has paid due regard to the following general principles and considerations –

- (a) performance of Hong Kong’s economy;
- (b) changes in Consumer Price Index (C) (“CPI(C)”); and
- (c) remuneration for PAOs should be commensurate with their responsibilities.

2.2 The Independent Commission notes that market pay practices for CEOs in the private sector with levels of responsibilities comparable to PAOs may not provide the most relevant reference given the inherent differences in the remuneration systems between the private and public sectors. As such, in undertaking the review, Members have decided that there should be no need to engage a consultant to conduct a market survey on the remuneration package of CEOs of private companies or non-governmental organisations, etc. However, the Independent Commission considers that the remuneration package of the heads of selected public statutory and other bodies (details at **Annex C**) may provide useful reference for its current review.

CHAPTER 3: ADJUSTMENT MECHANISM FOR THE REMUNERATION FOR PAOS

Current Situation

3.1 At present, there is no annual adjustment mechanism for the remuneration for PAOs, and the pay level of PAOs' remuneration has remained unchanged since 2002 (or 2007 as the case may be). This means that the real value of the remuneration for PAOs has declined substantially over the years due to inflation.

Consideration

3.2 The Independent Commission considers it essential and of utmost importance to put in place an objective and transparent annual adjustment mechanism to ensure that the remuneration of PAOs in terms of purchasing power is maintained at an appropriate level and thus need to be adjusted in line with movements of inflation.

3.3 The Independent Commission has considered the option of adjusting PAOs' remuneration according to civil service pay adjustments. Nevertheless, when the Political Appointment System was introduced in 2002, it was agreed that PAOs' remuneration packages should not be linked to that of the civil service. Also, pegging PAOs' remuneration to civil service pay could create concerns about potential conflicts of interest, as civil service pay adjustments are decided by the CE-in-Council in which SoDs and DoBs are serving as ex-officio members.

3.4 The Independent Commission notes that the remuneration of Members of the ExCo and the LegCo are adjusted in line with the movement of CPI(C) on an annual basis. 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, which should also be relevant to PAOs.

Recommendation

3.5 The Independent Commission recommends that the remuneration for PAOs should be adjusted annually in line with the movement of CPI(C).

CHAPTER 4: CASH REMUNERATION OF PAOS

Directors of Bureau

4.1 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 for DoBs is \$3,577,380 (\$298,115 per month).

Consideration

4.2 In considering whether the current level of DoBs' cash remuneration is appropriate or should require modification, the Independent Commission has taken into account the following –

(a) Performance of Hong Kong's economy

Hong Kong's economy has continued to grow; with cumulative growth in Gross Domestic Product ("GDP") between 2002 and 2015 amounting to 68.5% in real terms.

(b) Changes in CPI(C)

The cumulative increase in CPI(C) from 2002 to 2016 is estimated to be 34.7% (the figure for 2016 is estimated to be 2.5%).

(c) Remuneration for DoBs should be commensurate with their responsibilities

DoBs are each responsible for a wide range of policy portfolios as entrusted by the CE and for overseeing the underpinning executive departments. DoBs are responsible for formulating, explaining and defending government policies as well as canvassing support from the public and the LegCo. It has been increasingly challenging for DoBs

to carry out their duties under the prevailing social, economic and political environment.

4.3 In addition, the Independent Commission also notes that the prevailing level of remuneration for a DoB, at \$298,115 per month (or \$3,577,380 per annum), –

- (a) is the same as in 2002 when the Political Appointment System was first introduced, and no adjustment to the remuneration level has been made for the past 14 years;
- (b) does not reflect the economic growth or the cumulative increase in CPI(C) since 2002;
- (c) has fallen behind the prevailing level of public sector pay. As set out in Annex C, the total annual remuneration of the heads of a number of statutory and other bodies ranges from \$4 million to \$14.1 million. The Independent Commission considers that the remuneration of DoBs should be set at a reasonable level when compared to heads of statutory and other bodies, as the latter could be seen as competing for similarly high calibre talents who wish to engage in public service;
- (d) has fallen behind increases in the private sector pay. According to a study released by a management consultant firm in January 2014⁷, the median annual remuneration of CEOs among some 230 listed companies in Hong Kong was about \$10.62 million. The Independent Commission notes that there is a significant difference in the pay of CEOs of listed companies and that of DoBs, although Members also notes that the community may not generally accept DoBs to be paid on a par with CEOs of listed companies;
- (e) is not commensurate with the level of responsibility for DoBs. Indeed, the remuneration for PAOs should be

⁷ “Hong Kong CEOs and How They are Paid” conducted by the Hay Group.

pitched at an attractive level to facilitate the recruitment and retention of high calibre talents to serve such important positions in the HKSAR Government; and

- (f) has fallen behind the remuneration for permanent secretaries in the civil service. While the total remuneration package of permanent secretaries cannot be easily measured by a “cash value”, the small difference between the monthly cash remuneration of DoBs (\$298,115) and the salary of permanent secretaries (\$265,750 to \$273,700) indicates that DoBs’ remuneration is no longer comparable to and clearly less favourable than the permanent secretaries’ given the difference in their benefits package. Since the DoBs are ultimately responsible for the designated policy portfolios and accountable for the performance of the underpinning executive departments, as a matter of principle, the remuneration of DoBs should not lag behind the senior civil servants that DoBs are working with.

4.4 On the other hand, the Independent Commission recognises that the community generally considers that DoBs appointments come with great honour and thus cash remuneration should not be the primary incentive for attracting high calibre talents to take up such appointments.

4.5 The Independent Commission also appreciates that any proposed increase in pay level of DoBs would need to take into account the latest economic outlook of the Hong Kong economy, where the real GDP growth forecast for 2016 as a whole is forecast to be at a meagre level of 1-2% only, and the global economic outlook remains uncertain.

Recommendation

4.6 Taking all factors into consideration, the Independent Commission recommends that the cash remuneration for DoBs for the fifth-term HKSARG should be increased by 12.4%, which is equivalent to the cumulative change in CPI(C) from 2012 to 2016 (the figure for 2016 is estimated to be 2.5%), i.e., from \$3,577,380 to \$4,021,200 per

annum, or from \$298,115 to \$335,100 per month.

4.7 The Independent Commission considers that this proposed increase is moderate and reasonable, since it would compensate for the erosion of the purchasing power of a DoB's cash remuneration since 2012 (when the Independent Commission completed its last review) and reflect the growth of Hong Kong's economy since then. However, the Independent Commission is also of the view that a fair and comprehensive review of DoBs' remuneration may be considered sometime in future, with a view to restoring it to the "real value" of the original package approved by the LegCo FC in 2002.

Secretaries of Departments

4.8 At present, the differential in cash remuneration between DoBs, SJ, FS and CS remains at 3.5% for each tier.

Consideration and Recommendation

4.9 On the basis that there is no substantial change in their roles and responsibilities, the Independent Commission recommends to maintain the current 3.5% pay differential for different layers of SoDs and with DoBs for the fifth-term HKSARG. Assuming the Independent Commission's recommendation of a 12.4% increase in cash remuneration for DoBs, the total cash remuneration for SJ, FS and CS will become \$4,162,200, \$4,308,000 and \$4,458,600 per annum, or \$346,850, \$359,000 and \$371,550 per month respectively.

Deputy Directors of Bureau

4.10 At present, the cash remuneration for DDoBs is set at 65% to 75% of that for DoBs.

Consideration and Recommendation

4.11 On the basis that there is no substantial change in their roles and responsibilities, the Independent Commission recommends to

maintain the prevailing arrangement. The remuneration increase proposal by 12.4% will bring the total cash remuneration for DDoBs to \$2,613,600 – \$3,016,200 per annum, or \$217,800 – \$251,350 per month.

Political Assistants

4.12 At present, the cash remuneration for PAs is set at 35% to 55% of that for DoBs.

Consideration

4.13 The Independent Commission notes that PAs will perform a range of duties in accordance with the functional requirements as decided on by individual DoBs. PAs may come from a wide spectrum of candidates with different qualifications, backgrounds and work experience. The Independent Commission also notes that for the fourth-term HKSARG, the cash remuneration for all serving PAs engaged by the corresponding SoDs and DoBs has been fixed at the minimum level, i.e., 35% of a DoB's remuneration without variation, i.e., \$104,340 per month. Some consider that such standard arrangement does not reflect the diversity of job requirements or functions among the PAs, as stipulated by individual DoBs.

Recommendation

4.14 Rather than setting a fixed level of cash remuneration among the PAs, the Independent Commission recommends an arrangement whereby the cash remuneration for each PA engaged by a SoD or DoB is capped at 35% of the remuneration for DoBs, i.e., not more than \$1,252,080 per annum or \$104,340 per month. It would be for the SoD or the DoB to decide on the appropriate level that his/her PA should be paid based on the functional requirements of the job but within the ceiling of \$104,340 per month. The SoD or the DoB may wish to redeploy any unspent savings to engage other support in order to achieve the objectives of the respective department or bureau in the most cost effective manner.

CHAPTER 5: OTHER COMPONENTS OF THE REMUNERATION PACKAGE

Other Remuneration Components

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

- (a) annual leave of 22 days per annum;
- (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/her discretion for each of the SoDs and DoBs as well as for the Director of the CE's Office. Departmental transport for DDoBs is provided by relevant policy bureaux/offices from their internal resources; and
- (e) an official residence with domestic staff and a non-accountable entertainment allowance for each of the SoDs.

Consideration

5.2 The Independent Commission generally considers that the above components should continue to be adopted for PAOs serving in the fifth-term HKSARG. This notwithstanding, the Independent Commission recommends that PAOs' annual leave arrangement, and medical and dental benefits are possible areas that could be further examined by the Government sometime in future, outside the context of the Independent Commission's periodic review. The Independent Commission's considerations are elaborated in the following paragraphs.

Annual Leave

5.3 The Independent Commission notes that currently, subject to a maximum accumulation limit of 22 days, any accumulated leave will be forfeited upon the PAOs leaving office. As a reference, for the third-term HKSARG, about one-third of the PAOs forfeited more than half of their annual leave entitlement when leaving office, largely because they were unable to take leave during their term of office due to work requirements. This seems unfair and is different from the arrangements for civil servants on new agreement terms, under which officers are allowed to encash their leave balance accrued up to and including the end date of the appointment.

5.4 The Independent Commission considers that, within the parameters of the stipulated annual leave entitlement of 22 days, the Government may wish to consider whether and, if so, how to provide a suitable degree of flexibility to allow PAOs to encash their leave balance accrued up to and including the end date of their appointment, modelling on existing arrangement for civil servants on new agreement terms.

Medical and Dental Benefits

5.5 The Independent Commission notes that medical and dental benefits for PAOs during the term of their employment are provided on the same basis as those provided to civil servants.

5.6 The Independent Commission appreciates that PAOs recruited from outside the civil service may be more familiar with the private sector employment environment and may prefer choices other than the Hospital Authority's standard services. In this connection, the Independent Commission notes that it is also a common practice for the private sector and even statutory bodies to take out group insurance policies for their senior executives. It may offer PAOs better flexibility if they can resort to medical and dental insurance packages through an encashment arrangement.

5.7 The Independent Commission recognises that the level of medical and dental benefits that different layers of PAOs should be entitled to require careful examination and justification. The Independent Commission therefore considers this an area for possible in-depth study sometime in future.

Recommendation

5.8 The Independent Commission recommends no change at this stage to the other components of the remuneration package, including annual leave arrangement and medical and dental benefits, for PAOs serving in the fifth-term HKSARG.

CHAPTER 6: SUMMARY OF RECOMMENDATIONS

6.1 To sum up, the Independent Commission recommends –

- (a) the remuneration for PAOs be adjusted annually in line with the movement of CPI(C);
- (b) the cash remuneration for DoBs should be increased by 12.4%, which is equivalent to the cumulative change in CPI(C) from 2012 to 2016 (the figure for 2016 is estimated to be 2.5%), i.e., from \$3,577,380 to \$4,021,200 per annum, or from \$298,115 to \$335,100 per month;
- (c) the differential in cash remuneration between DoBs, SJ, FS and CS remains at 3.5% for each tier;
- (d) the cash remuneration for DDoBs is set at 65% to 75% of that for DoBs;
- (e) the cash remuneration for each PA engaged by a SoD or DoB be capped at 35% of the remuneration for DoBs, i.e. not more than \$1,252,080 per annum or \$104,340 per month. It would be for the SoD or the DoB to decide on the exact level that his/her PA should be paid within the ceiling of \$104,340 per month based on the functional requirements of the job, and how to redeploy any unspent savings to engage other support in order to achieve the objectives of the respective department or bureau in the most cost effective manner; and
- (f) no change to the other components of the remuneration package for PAOs at this stage.

6.2 Details of the recommended remuneration package for PAOs serving in the fifth-term HKSARG are set out in **Annex D**.

**Independent Commission on Remuneration for
Members of the Executive Council and the Legislature, and
Officials under the Political Appointment System of the HKSAR**

(Appointed by the Chief Executive)

Terms of Reference

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 Government 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 Government may refer to the Independent Commission from time to time.

Membership of the Independent Commission

Chairman

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

Members

Ms. Kelly CHAN Yuen-sau

Mr. Andrew FUNG Hau-chung, J.P.

Professor Leonard CHENG Kwok-hon, B.B.S., J.P.

Ms. LAU Ka-shi, B.B.S.

Ms. Elaine LO Yuen-man

Comparison of remuneration package of heads of selected statutory and other bodies (2014-15)

	Hong Kong Science and Technology Parks Corporation	Urban Renewal Authority	Tourism Board	Mandatory Provident Fund Authority	Trade Development Council	Securities and Futures Commission	Airport Authority	Hong Kong Monetary Authority	Mass Transit Railway Corporation Limited
Salary	\$4,000,001 - \$4,500,000	\$3,527,000	\$3,903,000	\$4,350,415 ¹	\$6,021,000 ²	\$6,582,000 ³	\$6,122,000	\$6,715,000	\$8,400,000 ⁴
Other remuneration components		\$1,075,000	\$1,119,000	\$1,269,259 ⁵	\$1,603,000 ⁶	\$2,830,000 ⁷	\$3,684,000	\$3,517,000	\$5,700,000 ⁸
Total	\$4,000,001 - \$4,500,000	\$4,602,000	\$5,022,000	\$5,619,674	\$7,624,000	\$9,412,000	\$9,806,000	\$10,232,000	\$14,100,000

¹ Salaries and other benefits.

² Salaries and discretionary performance pay.

³ Salaries, allowances and benefits in kind.

⁴ Salaries, allowances and benefits in kind.

⁵ Contributions to MPF schemes and variable pay.

⁶ Accommodation and other allowances, retirement benefit and staff-related expenses.

⁷ Discretionary pay and retirement scheme contributions.

⁸ Retirement scheme contribution and variable remuneration related to performance.

**Proposed remuneration package for PAOs
Serving in the Fifth-Term HKSAR Government (2017 to 2022)**

- (1) **Cash remuneration** (adjustment by 12.4%¹, which is equivalent to the cumulative increase in CPI(C) from 2012 to 2016)

Position	Monthly (Annual) Cash Remuneration (HK\$)		Pay differential
	Current	Proposed²	
CS	330,565 (3,966,780)	371,550 (4,458,600)	3.5% above FS
FS	319,385 (3,832,620)	359,000 (4,308,000)	3.5% above SJ
SJ	308,585 (3,703,020)	346,850 (4,162,200)	3.5% above DoB
DoB	298,115 (3,577,380)	335,100 (4,021,200)	-
DCEO			
DDoB	193,775 – 223,585 (2,325,300 – 2,683,020)	217,800 – 251,350 (2,613,600 – 3,016,200)	65%, 70% or 75% of DoB
PA	104,340 (1,252,080)	117,300 ³ (1,407,600)	Not more than 35% of DoB

¹ The year-on-year percentage changes in CPI(C) from 2012 to 2016 were 3.8%, 3.5%, 2.1% and 2.5% (estimate) respectively. The cumulative change in CPI(C) from 2012 to 2016 is thus estimated to be 12.4%.

² All figures are calculated based on the percentage differences with the DoB's remuneration.

³ PA's remuneration proposed to be capped at 35% of a DoB's remuneration in the new term.

(2) Other benefits

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

- (a) annual leave of 22 days per annum;
- (b) medical and dental benefits on the same basis as those provide 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/her discretion for each of the SoDs and DoBs as well as for the Director of the CE's Office. Departmental transport for DDoBs is provided by relevant policy bureaux/offices from their internal resources; and
- (e) an official residence with domestic staff and a non-accountable entertainment allowance for each of the SoDs.

Enclosure 2 to FCR(2016-17)80

Proposed remuneration package for PAOs Serving in the Fifth-Term HKSAR Government (2017 to 2022)

- (1) **Cash remuneration** (adjustment by 12.4%¹, which is equivalent to the cumulative increase in CPI(C) from 2012 to 2016)

Position	Monthly (Annual) Cash Remuneration (HK\$)		Pay differential	Additional costs per annum (HK\$) ²
	Current	Proposed ³		
CS	330,565 (3,966,780)	371,550 (4,458,600)	3.5% above FS	491,820
FS	319,385 (3,832,620)	359,000 (4,308,000)	3.5% above SJ	475,380
SJ	308,585 (3,703,020)	346,850 (4,162,200)	3.5% above DoB	459,180
DoB⁴	298,115 (3,577,380)	335,100 (4,021,200)	-	6,213,480
DDoB	193,775 - 223,585 (2,325,300 - 2,683,020)	217,800 - 251,350 (2,613,600 - 3,016,200)	65%, 70% or 75% of DoB	3,998,160 ⁵
PA	104,340 (1,252,080)	117,300 ⁶ (1,407,600)	Not more than 35% of DoB	2,177,280

/(2)

¹ The year-on-year percentage changes in CPI(C) from 2012 to 2016 were 3.8%, 3.5%, 2.1% and 2.5% (estimated) respectively. The cumulative change in CPI(C) from 2012 to 2016 is thus estimated to be 12.4%, to be updated upon availability of the actual 2016 CPI(C).

² Assuming all PAO positions are filled.

³ All figures are calculated based on the percentage differences with the DoB's remuneration.

⁴ The financial implication of DoB includes 1 Director of the Chief Executive's Office whose terms of employment should align with a DoB as approved by the FC in June 2007.

⁵ The maximum pay point is used for comparison.

⁶ PA's remuneration proposed to be capped at 35% of a DoB's remuneration in the new term.

(2) Other benefits

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

- (a) annual leave of 22 days per annum;
- (b) medical and dental benefits on the same basis as those provide 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/her discretion for each of the SoDs and DoBs as well as for the Director of the CE's Office. Departmental transport for DDoBs is provided by relevant policy bureaux/offices from their internal resources; and
- (e) an official residence with domestic staff and a non-accountable entertainment allowance for each of the SoDs.
