

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 21 – CHIEF EXECUTIVE’S OFFICE Subhead 000 Operational expenses**

Members are invited to –

- (a) approve the pegging of the remuneration for the Chief Executive at 112.5% of that for the Chief Secretary for Administration with effect from 1 July 2007; and
- (b) note the financial implications of establishing an office to provide support services to former Chief Executives.

### **PROBLEM**

The remuneration structure for the Chief Executive (CE) of the Hong Kong Special Administrative Region (HKSAR) has not been reviewed in the past eight years and is no longer appropriate.

### **PROPOSAL**

2. We propose to introduce a new remuneration package for the CE, involving an annual cash remuneration pegged at 112.5% of that for the Chief Secretary for Administration (CS), with effect from 1 July 2007.

**/JUSTIFICATION .....**

**JUSTIFICATION**

3. In April 2005, the Administration appointed the Independent Commission on Remuneration Package and Post-office Arrangements for the Chief Executive of the HKSAR (the Independent Commission) to consider and make recommendations on the remuneration package and post-office arrangements for the CE. The Independent Commission completed its study and submitted its report to the Administration in early June. The Administration has accepted the report as the basis for determining the arrangements relating to the office of the CE.

**Remuneration Package for the CE***Existing package*

4. The existing remuneration package for the CE comprises the following elements –

- (a) a monthly cash remuneration of \$244,565;
- (b) a gratuity at the rate of 25% of total cash remuneration, which is equivalent to \$61,141 per month;
- (c) an annual passage allowance for the CE and his/her spouse, currently at the rate of \$42,340 per person<sup>1</sup>;
- (d) vacation leave of 55.5 days, subject to a maximum accumulation limit of 365 days;
- (e) a non-accountable entertainment allowance (\$729,600 per annum for 2005-06 or \$60,800 per month);
- (f) housing, free of any charge; and
- (g) free medical and dental care for the CE and his/her spouse, on the same basis as that provided to civil servants.

/Traditionally .....

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<sup>1</sup> In line with the established adjustment mechanism, the annual passage allowance has been adjusted from \$39,630 to \$42,340 per person since the publication of the report of the Independent Commission.

Traditionally, the cash remuneration for the CE (and the Governor before July 1997) referred to in paragraph 4(a) above was set at 125% of the monthly pay of the CS. This peg ceased to have effect with the introduction of the Accountability System in July 2002, whereupon the politically appointed Principal Officials (POs) have since been remunerated on the basis of a total cash package. However, no corresponding changes were made to the remuneration structure for the CE<sup>2</sup>.

5. The total cost of CE's existing remuneration package (excluding paragraphs 4(e) to 4(g) above) is about \$4.02 million, broken down as follows –

	<b>Amount per annum \$</b>
(a) Cash remuneration	2,934,780
(b) Gratuity	733,695
(c) Leave passage allowance	84,680
(d) Encashed value of 33.5 days' untaken leave (assuming that the annual taken leave is 22 days and that the outstanding leave balance of 33.5 days will be encashed)	269,357
<b>Total</b>	<b>4,022,512</b>

***Total cash package with 12.5% as differential***

6. In line with the remuneration arrangements for POs under the Accountability System, the Independent Commission recommends that the remuneration package for the CE should consist of a total cash package with the relevant benefits encashed. The Independent Commission further recommends capping the total cost of the new package at the level of the existing remuneration package as set out in paragraph 5 above, so that there would not entail any extra

/financial .....

<sup>2</sup> Though no changes had been made to the remuneration structure for the CE, it should be noted that the level of cash remuneration received by CE had been adjusted three times since reunification. In April 2001 and October 2002, the remuneration of the CE was adjusted by +4.99% and -4.42% respectively in line with civil service pay adjustments. In January 2003, the CE and POs made a decision to reduce voluntarily their pay by 10% with effect from April 2003.

financial burden to the taxpayer. This translates into a total cash package of about \$4.02 million per annum, which is about 12.5% more than the existing annual encashed pay of the CS of \$3.57 million<sup>3</sup>.

7. The Independent Commission considers that a reduced differential of 12.5% in cash remuneration (as opposed to the previous differential of 25%) is appropriate. The Independent Commission recommends and the Administration has accepted that the new remuneration package should comprise the following elements –

- (a) cash remuneration at 112.5% of the pay of the CS (i.e. about \$4,017,100 per annum or \$334,758 per month under existing rates);
- (b) annual leave of 22 working days, subject to a maximum accumulation limit of 22 days. Any accumulated leave will be forfeited upon leaving office;
- (c) a non-accountable entertainment allowance at the existing rate to be subject to annual adjustment in accordance with established practice;
- (d) official residence, free of any charge; and
- (e) medical and dental care on the same basis as before.

8. Subject to Members' approval, we will adopt 12.5% as the pay differential between the CE and the CS in maintaining a suitable relativity between the cash remuneration for the two positions in future.

### ***Implementation timetable***

9. The Independent Commission recommends and the Administration has accepted that the existing remuneration package should continue to apply to the new CE returned through the 2005 by-election and that the new package would take effect from 1 July 2007.

**/Services .....**

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<sup>3</sup> In June 2002, the Finance Committee (FC) approved the new remuneration package for the POs under the Accountability System. In October 2002, the pay of the POs was adjusted downward by 4.42% in line with the civil service pay adjustment. In January 2003, the CE and POs made a decision to reduce voluntarily their pay by 10% with effect from April 2003. The existing annual encashed pay of CS of \$3.57 million represents the net result of these two reductions from the original pay level approved by FC in June 2002.

### Services for Former CEs

10. No arrangements have been made for former CE to facilitate him/her to perform promotional and protocol-related functions for Hong Kong after leaving office. Based on the recommendations made by the Independent Commission, the Administration intends to provide a package of services to support former CEs in discharging promotional and protocol-related functions. Such services comprise office accommodation and administrative support, a car with driver service, protocol and related arrangements, security protection, as well as medical and dental care.

#### *Office accommodation and administrative support*

11. A former CE can continue to serve Hong Kong after leaving office in the following respects –

- (a) making use of the international connections acquired to perform promotional and protocol-related functions for Hong Kong;
- (b) playing a bridging role between Hong Kong and the Mainland on matters affecting the two places; and
- (c) engaging in other activities with the aim of promoting the interests of the local community.

The Administration will set up an office in government premises which will be made available to any former CEs to perform promotional, protocol-related, or any other activities in relation to their former official role, such as receiving visiting dignitaries and delegations, giving local and overseas media interviews, attending public and social events, and taking part in speaking engagements. The office shall provide administrative support for scheduling and making arrangements for public and social appointments, handling correspondence and enquiries, and dealing with general administrative duties.

12. We will also provide a car with driver service through that new office. This service will be withdrawn for as long as a former CE takes up gainful employment in the non-government sector or engages in commercial activities.

*/Protocol .....*

***Protocol and related arrangements***

13. We intend to accord a former CE the formal title “Former Chief Executive of the HKSAR” with the tenure forming part of the formal title, abbreviated as “Former CE” with the years of tenure. A former CE and his/her spouse will be granted access to VIP facilities at the Hong Kong International Airport and other immigration control points. These protocol arrangements will be made available to a former CE, or to his/her spouse in the case of VIP facilities at immigration control points, on a life-long basis, regardless of whether the former CE has taken up gainful employment in the non-government sector or has engaged in commercial activities.

***Security protection***

14. We will provide a former CE with security protection. The provision and continuation of bodyguard services and residential security system will be subject to the security assessment by the Police from time to time regardless of whether a former CE has taken up gainful employment in the non-government sector or has engaged in commercial activities.

***Medical and dental care***

15. We will offer a former CE medical and dental care in Hong Kong on a life-long basis in line with that provided to civil service pensioners. This life-long service is extended to his/her spouse.

***Implementation***

16. The Executive Council has accepted the Independent Commission’s recommendation. The premises for establishing the office for former CEs are still being identified. We hope to have this formally established by early next year. In the meantime, we have made available administrative and transportation services to the former CE.

**FINANCIAL IMPLICATIONS**

17. The total cost of the new remuneration package for the CE as from 1 July 2007 will remain unchanged at the existing level. The introduction of the package in July 2007 is thus cost neutral to the Government. The exact level of annual cash remuneration for the CE starting from July 2007 will be calculated by adding 12.5% over the pay of the CS pertaining then. This will yield an annual cash remuneration of about \$4,017,100 per annum (or \$334,758 per month) with reference to the existing pay level of the CS.

18. We estimate that the additional recurrent expenditure arising from the office for former CEs is around \$2.2 million in a full year. This comprises mainly the staff costs for secretarial and clerical staff and a driver, as well as the operating expenses (including start-up cost) of the office. Subject to identification and availability of suitable government premises, the relevant departments will absorb the additional recurrent expenditure from within existing resources for 2005-06; recurrent provision will be included in the annual estimates for 2006-07 and thereafter.

19. The provision of office accommodation to former CEs will involve expenditure of a non-recurrent nature, including that for fitting-out works as well as procurement of necessary facilities and equipment for the office accommodation, which are expected to be absorbed within existing allocation for relevant departments.

20. The medical and dental services for a former CE and his/her spouse will be provided from within existing resources. The level of security protection services will vary according to the threat assessment by the Police Force. The additional financial implications are not likely to be significant.

## **BACKGROUND INFORMATION**

### **Consultation with Legislative Council Panel**

21. We consulted the Legislative Council Panel on Constitutional Affairs on the recommendations of the Independent Commission on 20 June 2005 and subsequently provided supplementary information in response to Members' requests. Members generally accepted the recommendations of the Independent Commission. Members agreed that the remuneration package for the CE should be re-designed in the manner recommended by the Independent Commission for implementation in July 2007. As for the provision of post-office services for former CEs, Members generally agreed to the range of services recommended by the Independent Commission. Some Members suggested that some of the services should be provided primarily to support former CEs to perform promotional and protocol-related functions. Taking into account Members' views, we will develop guidelines with regard to the operation of the office in supporting former CEs to fulfil the roles set out in paragraph 11.

**/The .....**

### **The Independent Commission**

22. The Independent Commission, chaired by Mr WONG Po-yan with Mr Vincent CHENG Hoi-chuen, Professor LIU Pak-wai and Dr Thomas LEUNG Kwok-fai as members, was set up in April this year to consider and make recommendations on issues relating to the office of the CE. The major recommendations of the Independent Commission are as follows –

- (a) the existing remuneration package should continue to be applicable to the new CE returned through the 2005 by-election, and that the new package, which will be an all-inclusive cash package with its total cost to the taxpayer set at 12.5% over the pay of the CS (i.e. to be set currently at \$4.02 million per annum), should be implemented for the third term CE in July 2007;
- (b) a former CE will be subject to post-office employment control within three years after leaving office. During the first year, a former CE will be barred from taking up any employment or re-engaging in any commercial activities. In the following two years, he shall seek advice from an advisory committee before commencing any employment or commercial activities. Blanket exemption will be made for him to undertake appointments with the Central Authorities or the HKSAR Government, or academic or charitable bodies, or non-commercial regional/international organisations during the three-year control period; and
- (c) a former CE will be provided with office accommodation in government premises, along with administrative and secretarial support, to help discharge promotional and protocol-related functions. The office will not be established to serve one particular former CE, and will be available for any former CE who is prepared to perform such functions for Hong Kong. A former CE will also be provided with a car and driver service. Depending on Police's assessment, security protection will be provided. A former CE will also enjoy access to protocol arrangements as well as medical and dental care.

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