

Miss Salumi Chan
Clerk to Panel
Panel on Public Service
Legislative Council
8 Jackson Road
Hong Kong

Dear Miss Chan,

**Remuneration packages for senior executives
of statutory bodies**

Thank you for your letter of 3 April 2006. We have carefully considered the views of the Subcommittee on West Kowloon Cultural District Development (the Subcommittee) as set out in paragraphs 4.37 to 4.39 and 6.30 of the Phase II Report of the Subcommittee. However, we do not consider it appropriate to set up an independent panel to review comprehensively the remuneration packages of the staff of existing statutory bodies and to propose a mechanism for determining the remuneration of their executive heads. The reasons are set out in the following paragraphs.

Comprehensive review conducted in 2002

In January 2002, the Government commissioned the Hay Group Limited to conduct a consultancy study on the remuneration of the senior executives of 11 selected statutory and other bodies. This study covered all the major statutory bodies which had to compete with the private sector for managerial staff with special experience and expertise and to operate under prudent commercial principles. The recommendations of the consultancy study were deliberated at the Public Service Panel at its meeting on 3 July 2002.

Apart from examining and recommending the remuneration packages of the senior executives of these statutory bodies, the consultancy study recommended a consistent set of principles to guide the governing boards of each body in determining remuneration of their senior executives and conducting periodic reviews of the remuneration packages in the future. It also proposed an adjustment mechanism to enable the community to monitor the long-term comparability between the remuneration packages of the selected bodies with their private sector counterparts.

To achieve greater consistency and objectivity in the organizations' remuneration arrangements, the consultant proposed and the Government accepted that each organization should have a designated committee to deal with remuneration issues including setting the remuneration policy for the senior executives, reviewing the market pay levels and trends, and formulating its remuneration recommendations to the relevant governing boards or approving authorities.

To enhance transparency, the Government also accepted the general framework recommended by the consultant for regular disclosure of the remuneration arrangements of the selected bodies to the responsible Directors of Bureaux and the community in general. The governing bodies were required to disclose the full remunerations packages of their chief executives, and the aggregate or average remuneration data for the second and third tier executives. At a minimum, an organization should comply with the Companies Ordinance and disclose total remuneration in ranges, as required in the annual reports of companies listed in the Hong Kong Stock Exchange.

Following the completion of the findings of the study in June 2002, the Administration briefed the Public Service Panel on the findings at its meeting on 3 July 2002 and provided an update to the Panel at its meeting on 15 December 2003. The Administration informed the Panel that the selected bodies had responded positively to the consultant's recommendations. The remuneration of senior executives of the selected bodies and their compliance with the established principles in the study would be subject to annual review under the new reporting mechanism between the selected bodies and relevant bureaux. At the Public Service Panel's meeting on 15 December 2003, the Chairman concluded that since the selected bodies were all committed to report to the bureaux concerned annually on the detailed remuneration arrangements and the implementation of the consultant's recommendations, Members who would like to follow up the issue could do so by inviting the bureaux concerned to report progress to the relevant Panels.

No one-size-fit-all formula

Following the 2002 review, the Government has already put in place a system for the effective control and monitoring of the remuneration of senior executives of statutory bodies. These measures have greatly enhanced the objectivity and transparency of the remuneration policies and adjustment mechanisms of these statutory bodies.

As each statutory body is different in its nature and has its own operational needs and requirements for talents, it would not be practicable to devise a single mechanism for determining remuneration which is applicable to all statutory bodies. Remuneration packages for statutory bodies have to be decided on an individual case basis and there is no one-size-fit-all formula.

These statutory bodies have their own independent governing boards or committees to oversee their management and operations. We should give due recognition to the role played by the governing boards or committees of the statutory bodies in overseeing the propriety and transparency of the remuneration policies and arrangements, and formulating their recommended remuneration packages to the relevant authorities for approval. It would not be appropriate for the Administration to prescribe or mandate the salary levels for their senior staff on behalf of the governing boards. After all, the governing boards should know better than the Administration or any independent panel as to the relevant market pay condition as well as the qualifications, experience, competence and performance of their top executives. Hence, they should make fair and proper judgment on remuneration issues pertaining to the respective organizations.

Yours sincerely,

(Miss Shirley Yung)
for Director of Administration

cc Hon TAM Yiu-chung, GBS, JP (Chairman of Public Service Panel)