

ITEM FOR FINANCE COMMITTEE

NEW HEAD “GOVERNMENT SECRETARIAT : CULTURE BUREAU”

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 55 - GOVERNMENT SECRETARIAT :
COMMERCE AND ECONOMIC DEVELOPMENT
BUREAU (COMMUNICATIONS AND TECHNOLOGY
BRANCH)**

**HEAD 144 - GOVERNMENT SECRETARIAT :
CONSTITUTIONAL AND MAINLAND AFFAIRS
BUREAU**

HEAD 92 - DEPARTMENT OF JUSTICE

**HEAD 138 - GOVERNMENT SECRETARIAT :
DEVELOPMENT BUREAU (PLANNING AND LANDS
BRANCH)**

**HEAD 156 - GOVERNMENT SECRETARIAT :
EDUCATION BUREAU**

**HEAD 137 - GOVERNMENT SECRETARIAT :
ENVIRONMENT BUREAU**

**HEAD 147 - GOVERNMENT SECRETARIAT :
FINANCIAL SERVICES AND THE TREASURY
BUREAU (THE TREASURY BRANCH)**

**HEAD 139 - GOVERNMENT SECRETARIAT :
FOOD AND HEALTH BUREAU (FOOD BRANCH)**

/HEAD

- HEAD 53 - GOVERNMENT SECRETARIAT :
HOME AFFAIRS BUREAU**
- 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 annual adjustment mechanism for the cash remuneration for the politically appointed officials and the corresponding adjustment to the cash remuneration for the Chief Executive since it is pegged at 112.5% of that for the Chief Secretary for Administration; and
- (b) the delegation of authority to Permanent Secretary for Financial Services and the Treasury (Treasury) to approve the future adjustments to the levels of cash remuneration for the politically appointed officials and, correspondingly, the Chief Executive in accordance with the proposed mechanism.

PROBLEM

We need to put in place an objective and transparent adjustment mechanism to ensure that the cash remuneration for the politically appointed officials (PAOs)¹ is in line with movements in the economy.

/PROPOSAL

¹ “Politically appointed officials” means officials under the Political Appointment System. For the third-term Government of the Hong Kong Special Administrative Region (HKSAR), the team of politically appointed officials comprises 40 positions, namely three Secretaries of Department (SoDs), 12 Directors of Bureau (DoBs), Director of the Chief Executive’s Office, 11 Deputy Directors of Bureau (DDoBs) and 13 Political Assistants (PAs).

PROPOSAL

2. We propose that with effect from 1 July 2013 –
- (a) the cash remuneration for the PAOs as approved by the Finance Committee (FC) of the Legislative Council (LegCo)² be adjusted on an annual basis in accordance with the change in the average annual Consumer Price Index (C) (CPI(C)) and the cash remuneration for the Chief Executive (CE) be correspondingly adjusted since it is pegged at 112.5% of that for the Chief Secretary for Administration (CS); and
 - (b) authority be delegated to Permanent Secretary for Financial Services and the Treasury (Treasury) to approve future adjustments to the levels of cash remuneration for the PAOs and, correspondingly, the CE in accordance with the proposed mechanism.

JUSTIFICATION

3. The levels of remuneration for the PAOs were approved by the FC in 2002 and 2007. No mechanism for annual adjustments of PAOs' remuneration has since been established. At present, the levels of remuneration for the PAOs are 5.38% lower than those approved by the FC, as the CE announced on 16 June 2009 that all PAOs accepted a 5.38% voluntary reduction of their remuneration from 1 July 2009.

4. 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)³ has completed a review on the remuneration package

/for

Encl. 1

² The cash remuneration for the existing positions of PAOs as approved by FC in 2002 and 2007, and the cash remuneration for the CE as approved by FC in 2005 are set out in Enclosure 1. It is proposed in FCR(2012-13)43 that two positions at the rank of Deputy Secretary of Department (DSoD) be created with salary set at 101.75% of that of DoBs (i.e. at \$303,330 per month or \$3,639,960 per annum). It is also proposed that a lump sum of \$1.2 million per annum be provided to each of the SoDs, DSoDs and DoBs (except the Secretary for Justice and the Secretary for Civil Service who are not underpinned by PAs) (subject to a monthly cap of \$100,000 per month) for engagement of one or more PAs. Under our current proposal, both the total cash remuneration provided to each private office for engagement of PAs and the cash remuneration for each of the holders of the PA positions will be adjusted in accordance with the annual CPI(C).

Encl. 2

³ The Independent Commission is appointed by CE to advise the Administration on the remuneration package for Members of the Executive Council (ExCo) and the LegCo, as well as PAOs. The terms of reference and membership of the Independent Commission are set out in Enclosure 2.

for the PAOs serving in the fourth-term HKSAR Government and considers it necessary to put in place an objective and transparent adjustment mechanism to ensure that the cash remuneration for the PAOs is adjusted from year to year in line with movements in the economy. The Independent Commission recommends to the Administration, among other proposals, that, with effect from the next-term Government, the cash remuneration for the PAOs should be adjusted on an annual basis in accordance with an objective indicator.

5. In this regard, the Independent Commission has considered different options to adjust the PAOs' remuneration and recommends that CPI(C) should be adopted as the basis for adjustment because it is an objective and transparent economic indicator which reflects the change in price level over time. This can maintain the real value of the pay set for PAOs and avoid concerns about potential conflicts of interests. The Independent Commission notes that the cash remuneration for Members of the ExCo and the LegCo are also adjusted annually in line with the movement of CPI(C). An extract of the relevant sections of the Independent Commission's report is at Enclosure 3.

Encl. 3

6. The current-term Government considers the Independent Commission's recommendation to set up an annual adjustment mechanism for the cash remuneration for the PAOs a justified improvement to the PAO remuneration system and agrees that the movement of CPI(C) should be used as the basis for adjustment.

7. As approved by the FC on 18 November 2005, the cash remuneration for the CE has been pegged at 112.5% of that for the CS with effect from 1 July 2007⁴. In order to maintain the 12.5% pay differential between the CE and the CS as approved by FC in 2005, we propose that the cash remuneration for the CE be adjusted correspondingly with the adjustment to that for the PAOs.

/Implementation

⁴ In 2005, the Administration proposed to peg the remuneration for the CE at 112.5% of that for the CS with effect from 1 July 2007. With reference to the pay level of the CS at that time, the proposed annual cash remuneration for the CE was about \$4,017,100 per annum (or \$334,758 per month). The Administration made it clear that the exact level of annual cash remuneration for the CE starting from July 2007 would be calculated by adding 12.5% over the pay of the CS pertaining then. The Administration's proposal was approved by the FC on 18 November 2005.

With effect from 1 July 2007, the levels of cash remuneration for Principal Officials (i.e. SoDs and DoBs) were restored to those approved by the FC in 2002. The cash remuneration for the CE was adjusted accordingly to \$4,462,620 per annum or \$371,885 per month.

Implementation of the Proposed Annual Adjustment Mechanism

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

- (a) the cash remuneration for the PAOs and, correspondingly, the CE be adjusted on 1 July every year, with effect from 1 July 2013; and
- (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 Members and ExCo Members⁵.

We further propose that the authority to approve the future annual adjustment to the level of cash remuneration for the PAOs and, correspondingly, the CE on the basis of the above proposed mechanism be delegated to the Permanent Secretary for Financial Services and the Treasury (Treasury).

FINANCIAL IMPLICATIONS

9. The CPI(C) changes from time to time in the light of the economic situation of Hong Kong. Depending on the movement of the CPI(C), the implementation of the proposed annual adjustment mechanism for the remuneration for the PAOs and, correspondingly, the CE may incur an additional cost or bring about a saving. The actual financial implication involved cannot be accurately assessed at this stage. Based on the structure of the political team in the third-term HKSAR Government (i.e., CE, three SoDs, 12 DoBs, Director of the CE's Office, 11 DDoBs, and 13 PAs), a 1% change in the average annual CPI(C) will incur an additional cost or bring about a saving of about \$1.2 million⁶ per annum. On the basis of the proposed re-organised structure⁷, which is the subject of FCR(2012-13)43, the same 1% change in the average annual CPI(C) will incur an additional cost or bring about a saving of about \$1.3 million⁸ per annum. Additional provision actually required, if any, will be included in the draft Estimates of Expenditure of the relevant financial years.

/PUBLIC

⁵ The remuneration for LegCo Members and ExCo Members is adjusted on an annual basis 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 Using the levels of cash remuneration approved by the FC for the CE and the PAOs as the basis for calculation. For the positions of DDoBs and PAs, the maximum pay point is used as the basis for calculation.

⁷ The proposed re-organised structure comprises CE, three SoDs, two DSoDs, 14 DoBs, Director of the CE's Office, 13 DDoBs, and one or more PAs for each of the 17 private offices.

⁸ Using the levels of cash remuneration approved by the FC for the CE and the PAOs, except that the total cash remuneration for PA(s) for each of the private offices be capped at \$1.2 million per annum as proposed in FCR(2012-13)43, as the basis for calculation. For the positions of DDoBs, the maximum pay point is used as the basis for calculation.

PUBLIC CONSULTATION

10. On 21 May 2012, we consulted the LegCo Panel on Constitutional Affairs on the proposals regarding the remuneration package for the PAOs serving in the fourth-term HKSAR Government, including the proposal to introduce an annual adjustment mechanism for the remuneration for the PAOs. Members expressed their views on the proposed remuneration package but did not express any specific views on the proposed annual adjustment mechanism. They noted the Administration's intention to seek FC's approval before the end of the current-term Government.

BACKGROUND

11. After considering the recommendations of the Independent Commission, the current-term Government proposed to increase the remuneration for the PAOs serving in the next-term Government by 8.1% on the basis of the remuneration level which took effect in October 2002 and April 2008.

12. In the light of the views of the public and the LegCo, the current-term Government, with the agreement of the Office of the CE-elect, announced on 5 June 2012 that it would not pursue the proposal to increase the remuneration for the PAOs but would continue to pursue the proposal of an annual adjustment mechanism for PAOs' remuneration. The CE-elect announced on the same day that the entire political team of the next-term Government would have their pay frozen at the present level, i.e. at the 2009 level following the voluntary pay cut of 5.38%.

Constitutional and Mainland Affairs Bureau
June 2012

**Levels of Cash Remuneration for the Chief Executive and
Politically-Appointed Officials Approved by the Finance Committee (FC)
of the Legislative Council (LegCo)**

Position ^{Note}	Monthly Remuneration	Annual Remuneration	Pay differential
	Amount approved by the LegCo FC in 2002, 2005 or 2007 (HK\$)	Amount approved by the LegCo FC in 2002, 2005 or 2007 (HK\$)	
Chief Executive	371,885	4,462,620	12.5% above CS
Chief Secretary for Administration (CS)	330,565	3,966,780	3.5% above FS
Financial Secretary (FS)	319,385	3,832,620	3.5% above SJ
Secretary for Justice (SJ)	308,585	3,703,020	3.5% above DoB
Directors of Bureau (DoB)	298,115	3,577,380	-
Director, Chief Executive's Office			
Deputy Directors of Bureau	193,775	2,325,300	65%-75% of DoB
	- 223,585	- 2,683,020	
Political Assistants	104,340	1,252,080	35%-55% of DoB
	- 163,960	- 1,967,520	

^{Note} It is proposed in FCR(2012-13)43 that two positions at the rank of Deputy Secretary of Department (DSoD) be created with salary set at 101.75% of that of DoBs (i.e. at \$303,330 per month or \$3,639,960 per annum). It is also proposed that a lump sum of \$1.2 million per annum be provided to each of the Secretaries of Department, DSoDs and DoBs (except the Secretary for Justice and the Secretary for Civil Service who are not underpinned by PAs) (subject to a monthly cap of \$100,000 per month) for engagement of one or more PAs. Under our current proposal, both the total cash remuneration provided to each private office for engagement of PAs and the cash remuneration for each of the holders of the PA positions will be adjusted in accordance with the annual Consumer Price Index (C).

**Terms of Reference
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
(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

**Membership of the Independent Commission
(As at June 2012)**

Chairman

Background

Mr Vincent CHENG Hoi-chuen, G.B.S., J.P.	Former Advisor to HSBC Group Chief Executive and Former Chairman of the Hongkong and Shanghai Banking Corporation Limited
--	---

Members

Mr Nicky LO Kar-chun, S.B.S., J.P.	President and Chief Executive Officer of Synnex Technology International (Hong Kong) Limited
Mr Chow Chung-kong	Chairman of Hong Kong Exchanges and Clearing Limited
Mrs Betty Yuen So Siu-mai	Vice Chairman of CLP Power Hong Kong Limited
Professor Chan Yuk-shee, B.B.S., J.P.	President and Chair Professor of Finance of Lingnan University
Ms Kelly Chan Yuen-sau	Financial Controller of Moet Hennessy Diageo Hong Kong Limited

Extract of the Independent Commission's report

**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 directions¹. 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).

¹ 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 Indicators², 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 ten year.

² 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.