

**Extract from the minutes of the meeting of the
Panel on Constitutional Affairs on 21 May 2012**

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

[LC Paper Nos. CB(2)2014/11-12(01) and IN28/11-12]

Briefing by the Administration

48. DSCMA briefed members on the proposed remuneration package for PAOs serving in the fourth-term HKSAR Government as detailed in the Administration's paper [LC Paper No. CB(2)2014/11-12(01)].

49. Members noted the information note on "Remuneration Package for Appointees under the PAS" prepared by the Research Division of the LegCo Secretariat [LC Paper No. IN28/11-12].

Level of cash remuneration

50. Mrs Regina IP sought information on the changes in the cash remuneration for the CE following the proposed increase in the cash remuneration for DoBs. DSCMA responded that the cash remuneration for CE was 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 CE would increase from \$371,885 to \$401,960, i.e. an increase of \$360,900 per annum.

51. Mrs Regina IP pointed out that while the Final Report on Consultancy Services for Reviewing the Remuneration Packages for Officials under the PAS ("the consultancy report") stated that Hong Kong's gross domestic product ("GDP") had a cumulative growth over the past few years, it had not mentioned about other local economic issues such as a widening wealth gap, an increase in the number of the poor, etc. Hong Kong's economic performance was not very good and its economic growth had in fact lagged behind that of Shenzhen and Singapore. She considered that Hong Kong's prosperity in recent years was largely attributable to measures such as the Individual Visit Scheme and the promotion of Renminbi business. PAOs

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in the current-term Government had made little contribution to that prosperity. Furthermore, the economic performance of Hong Kong would be affected by the global financial situation which was beyond the control of PAOs. The performance of Hong Kong's economy therefore should not be a consideration of the review of the remuneration package for PAOs.

52. Mrs Regina IP said that she had no strong view on a pay rise for CE and DoBs so long as they performed well but she found the performance of the PAOs in the current-term Government disappointing. Mrs IP pointed out that the cash remuneration for DoBs serving in the fourth-term Government would actually be increased by some 14% rather than 8.1% as proposed when compared with that for DoBs serving in the current-term Government. Given the salary for CE and DoBs in Hong Kong was already the second highest in the world, Mrs IP found the increment totally unacceptable and objected to the proposed increase to the cash remuneration for PAOs serving in the fourth-term HKSAR Government.

53. DSCMA responded that the Administration aimed to seek FC's approval on the proposals concerning the remuneration package for PAOs serving in the fourth-term HKSAR Government in June 2012. The Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the PAS of the Hong Kong Special Administrative Region ("the Independent Commission") had taken into account, among others, Hong Kong's economic performance in the review. The Independent Commission had used the cumulative increase in Consumer Price Index ("CPI") (C) for the period from 2002 to 2011 rather than the cumulative growth in GDP as a basis of its recommendations given the former was an indicator of the erosion of the purchasing power of a DoB's cash remuneration during the same period.

54. Mrs Regina IP opined that the responsibilities of PAOs and senior executives in the private sector were not directly comparable and hence unnecessary to align their remuneration. Unlike senior executives in the private sector, PAOs could exercise public powers and had a higher social status. Furthermore, political appointees should have a strong sense of public service and should not attempt to compare their remuneration package with the private sector. As illustrated in the consultancy report, the levels of remuneration for the PAOs in overseas jurisdictions were, in general, far below that for the PAOs in Hong Kong. In her view, the levels of remuneration for DoBs were exceedingly high. Mrs IP considered that the Independent Commission should have taken into account the public's

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opinions on the performance of the incumbent CE and the current-term Government. She pointed out that according to the findings of some opinion polls, the public generally considered that the current-term Government had not done much in the past few years and the performance approval rate of the incumbent CE was low.

55. Ms Emily LAU said that there was wide public concern about the substantial increase in the remuneration for DoBs as their existing remunerations were already among the highest in the world. Coupled with the impact of external financial factors such as the Eurozone debt crisis on local economy, the public might be more receptive to an increase in the remuneration for DoBs if their salary were adjusted according to their performance. Ms LAU considered that it was premature at this stage to propose an increase to the remuneration for PAOs serving in the next-term of Government and enquired whether the Administration would consider deferring submission of the proposals until the next-term Government had assumed office.

56. DSCMA responded that the reason for the current-term rather than the next-term Government proposing an increase to the remuneration for PAOs serving in the next-term Government was to avoid a conflict of interests. It was an established practice for the Independent Commission to carry out a review of the remuneration package for PAOs about a year before the start of a new term Government. The Independent Commission had recommended that the cash remuneration for DoBs which had been frozen in the past 10 years be increased by the same rate as the cumulative increase in CPI(C) from 2002 to 2011, i.e. 15.3%. Having regard to the change in civil service pay in the upper salary band during the same period and the increase in the median total direct compensation for senior executives in the private sector in the past 10 years which was at 8% as surveyed by the consultancy commissioned by the Independent Commission, the Administration had proposed to reduce the rate of increase from 15.3% to 8.1%.

57. Ms Emily LAU opined that it should not be a matter of concern for a Government proposing its own remuneration package as long as the review was conducted by an independent statutory body. She considered it unsatisfactory that the review of the remuneration package for PAOs was not carried out by an independent body, but a body appointed by CE. Ms LAU suggested that the Administration should make reference to overseas practice in the review of remuneration package for government officials. She considered that the CE-elect should convey a clear message

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to the public that the new Government was willing to tide over the difficult times with the community and prepare for a voluntary pay reduction even if a pay raise was suggested. Ms LAU asked whether a pay reduction could be initiated by the next-term Government. DSCMA said that CE and PAOs who served in the second-term and third-term Governments had in fact accepted a pay cut voluntarily.

58. Mrs Regina IP sought information on the financial implications of the Administration's proposals including the expenditures incurred in the benefits and the type of benefits to be provided to PAOs, particularly those to CE, the Secretary for Justice, the Financial Secretary and CS. DSCMA advised that the additional staff cost arising from the proposed re-organization of the Government Secretariat was estimated to range from around \$62 million to \$63 million each year. The proposed remuneration package for PAOs, if approved, would incur an additional staff cost of \$6.2 million. DSCMA undertook to provide other information requested by Mrs IP in writing after the meeting.

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(Post-meeting note: The Administration's response was issued to members vide LC Paper No. LC Paper CB(2)2386/11-12(01) on 18 June 2012.)

59. Mr CHEUNG Man-kwong said that while the salary for DoBs was based on that for Permanent Secretaries, the salaries for Under Secretaries (which was pitched at 65% to 75% of that for DoBs) and Political Assistants were set arbitrarily. While the Administration proposed to cap the total cash remuneration for Political Assistants engaged by each of the Secretaries of Departments ("SoDs"), DSoDs and DoBs at \$100,000 per month, it evaded to address the need to reduce the cash remuneration for Under Secretaries. Following the further development of the Political Appointment System in 2007, there was severe criticism from the public that the salaries for Under Secretaries and Political Assistants were too high. The public took the view that Under Secretaries did not deserve a pay at 65% of the salary for DoBs. Instead of pitching the salary for Under Secretaries to a lower percentage of the salary for DoBs, the Administration now proposed to set the cash remuneration for Under Secretaries at 70% of that for DoBs. He expressed dissatisfaction that the Administration's proposal had run counter to the public's strong call for a lower level of cash remuneration for Under Secretaries. Mr CHEUNG said that the workload of Permanent Secretaries was very heavy as they had to oversee matters of the entire department and advise DoBs on policies issues. Given the scope

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of responsibilities of Permanent Secretaries, civil servants would find it unfair for the Under Secretaries to receive a higher pay than Permanent Secretaries. He enquired about the justifications for not proposing a pay cut for Under Secretaries.

60. DSCMA responded that the remuneration range for Under Secretaries was equivalent to the remuneration for a D4 to D6 civil servant. The Independent Commission had already taken account of the remuneration at various pay levels for civil servants and narrowed the range from between 65% and 75% to 70%. The levels of cash remuneration for PAOs and civil service salaries should not be compared directly because they were formulated on different bases.

Other components of the remuneration package

61. In response to Mr Albert HO's enquiry, DSCMA said that DoBs were not entitled to contract-end gratuity. Principal Assistant Secretary (Constitutional and Mainland Affairs) supplemented that DoBs were eligible for Mandatory Provident Fund contribution by the Government, medical and dental benefits during their term of office. For those appointees who were retired civil servants, they would continue to enjoy the medical and dental benefits provided by the Government upon the end of their term of appointment.

62. Referring to paragraph 28 of the Administration's paper, Mrs Regina IP sought clarification on whether all SoDs and DoBs were eligible for an official residence and a non-accountable entertainment allowance. DSCMA clarified that only SoDs were entitled to such benefits.

63. Mr CHEUNG Man-kwong and Mrs Regina IP expressed concern that SoDs might enjoy double housing benefits. Mr CHEUNG pointed out that the housing allowance had in effect been encashed and incorporated into the remuneration for SoDs and yet they were still provided with an official residence. Ms Emily LAU shared the same concern, adding that before the implementation of the PAS, SoDs were required to pay a rental equivalent to 7.5% of their salary for the official residence but that requirement no longer applied under PAS. She also pointed out that housing benefits aside, civil servants who were appointed principal officials would be entitled to civil service retirement benefits such as a monthly pension. Mrs Regina IP considered that SoDs should reside in the official residence to facilitate them

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to discharge their official duties. DSCMA undertook to address members' concern in writing after the meeting.

(Post-meeting note: The Administration has provided information on official residences for the former Governors, Chief Executive and the three SoDs which was circulated to members vide LC Paper No. ESC48/11-12(01) on 12 June 2012.)

Disciplinary mechanism under the Political Appointment System

64. Mr CHEUNG Man-kwong was of the view that apart from being asked to step down from office, PAOs should be subject to a mechanism under which a range of disciplinary actions could be taken against their misconduct. While CE had introduced a disciplinary system to admonish political appointees with a sub-standard performance, it was insufficient to adopt a single form of sanction regardless of the gravity of the misconduct concerned. Moreover, the disciplinary mechanism in the civil service was more comprehensive and stringent. Mr CHEUNG enquired whether the Administration would consider putting in place a disciplinary mechanism under PAS so that PAOs could be penalized for their sub-standard performance by deducting or freezing their salary. He stressed that provisions of such a mechanism should be stipulated in the employment contracts of PAOs of the new term Government. Otherwise, it would not be possible for the fourth-term Government to implement the disciplinary mechanism as the employment contracts would have been signed by 1 July 2012. Mr Albert HO and Ms Emily LAU expressed a similar view. Mr HO was also dissatisfied that while the current-term Government was unwilling to conduct a comprehensive review of PAS, it had proposed to reorganize the Government Secretariat and increase the cash remuneration of PAOs.

65. DSCMA responded that the review was focused mainly on the level of remuneration for PAOs but the issue of introducing a disciplinary mechanism under PAS was outside the scope of the review. As the relevant issues would have an impact on the operation of the fourth-term Government, consultation with the CE-elect's Office would be necessary. DSCMA undertook to relay members' views to the CE-elect's Office.

66. Mr CHEUNG Man-kwong and Mr Albert HO requested the Administration to revert to the Panel on the feasibility of putting in place a disciplinary mechanism under PAS before submitting the financial proposal

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concerned to the FC. Mr HO further said that should the Administration refuse to review PAS, members could request the Administration to include in the financial proposal to be submitted to the FC a number of conditions including a reduction in pay, censuring, etc to ensure that PAOs would be held accountable for their sub-standard performance. Ms Emily LAU said that the Panel could decide whether it was necessary to further discuss the issue after consideration of the Administration's response. Ms LAU added that responsible PAOs should be present for the relevant discussion in the future.

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