

## **LEGISLATIVE COUNCIL BRIEF**

### **Internal Review of Remunerations of Senior Executives of Government-funded Bodies**

#### **INTRODUCTION**

At the meeting of the Executive Council on 25 February 2003, the Council took note of:

- (a) the findings of a review of remunerations of the senior executives of 20 selected bodies; and
  - (b) a set of new guidelines for the effective control and monitoring of the structure, ranking and remuneration for the top three-tier executives in subvented bodies.
2. With the implementation of the new guidelines, the Council ADVISED and the Chief Executive ORDERED that the Government should do away with the subvention guideline premised upon the “no better than” principle.

#### **JUSTIFICATIONS**

##### **Review of Remunerations of Senior Executives in Selected Bodies**

3. In light of the community’s concern over the remuneration of the senior staff of government-funded bodies, the Steering Committee convened by the Chief Secretary for Administration conducted an internal review under a two-stage approach. During the first stage, the responsible bureaux completed a stock-taking exercise for over 300 government-funded bodies or groups of bodies under their purview. The Steering Committee wished to focus on organizations receiving recurrent financial assistance from the Government (i.e. subvented bodies) and at the same time had employed their own senior executives.
4. Under the second stage of the review, based on the bureaux’ recommendations, the Steering Committee selected 20 subvented bodies for detailed examination. These 20 bodies:

- (a) receive and rely on government recurrent funding as their major source of income, i.e. government subvention amounted to more than 50% of their operating income in each case; and
- (b) employ their own executive staff and have devised separate remuneration packages for them.

5. Given the community's particular concern over the remuneration of the senior executives of publicly-funded bodies, for each of the 20 selected subvented bodies, the relevant bureau had examined the appropriateness of the number, ranking and remuneration packages of its top three-tier executives and made recommendations on rectifying irregularities identified. The Steering Committee concluded the review in December 2002 with the following findings:

- (a) the number, ranking and remuneration packages of the senior executives in 13 selected bodies were in order;
- (b) three organizations would be subject to separate review in 2003; and
- (c) actions should be taken to modify remuneration packages and practices of the senior executives in the remaining four organizations.

6. The review findings are summarized at Annex A.

### **New Guidelines for the Control and Monitoring of Remunerations of Senior Executives of Subvented Bodies**

7. In the light of public concern, the Steering Committee decided to strengthen the monitoring and control for the top three tiers of staff in subvented organizations. It also believed that the framework of remuneration practices for the senior executives of an organization would in effect filter down to other tiers of staff. Specifically, the Steering Committee decided to adopt the following new guidelines for the effective control and monitoring of the ranking, structure and remuneration of the top three-tier executives in subvented bodies:

- (a) Save for the exceptions in Annex B, all subvented bodies which receive more than 50% of their operating income from the Government should review their senior staff's number, ranking and remuneration and submit to their responsible Directors of Bureaux annual reports on the review findings. The relevant Directors of

Bureaux may, with justifications, approve individual bodies under their purview to submit biennial or triennial review reports.

- (b) Each body's review report should set out the up-to-date position in respect of the number, ranking and remuneration packages of staff at the top three tiers, and also explain and justify any changes over the period covered in the report.
- (c) In assessing the appropriateness of the number and ranking of senior positions of a subvented body, the Director of Bureau will take into account the functions and overall staffing structure of the concerned body, the nature and complexity of duties being performed by each of the top three-tier executives in question, and the ranking for comparable jobs in the civil service. Where there are no comparable jobs in the civil service, reference should be made to market practices.
- (d) As a general rule, the ranking of the senior staff of a subvented body should not exceed Directorate Pay Scale D8 or equivalent.
- (e) In evaluating the appropriateness of remuneration packages for senior positions of a subvented body that have comparable civil service ranks, the responsible Director of Bureau will compare the average total cost of remuneration for a tier of staff with that of civil servants at comparable ranks. The cost comparison for each of the top three tiers of staff will comprise two parts, one for serving staff and one for the first contracts of new recruits. Details of this cost comparison approach are set out at Annex C. In the absence of such comparable civil service ranks, reference should be made to market practices.
- (f) To enhance transparency, the Director of Bureau will work out with those subvented bodies under his/her purview suitable arrangements for public disclosure of their regular review reports.

8. Relevant subvented bodies are expected to submit their first review reports for the period from 1 April 2003 to 31 March 2004 to their respective Directors of Bureaux before end June 2004. Directors of Bureaux may, with justification, approve individual bodies under their purview to submit their first review reports on a later date. For a multi-disciplinary organization providing services which fall under programme areas of different Directors of Bureaux, a Director of Bureau would be responsible for that part of the review report covering those senior staff who operate services under his/her policy purview.

*Application of the “no double housing benefits” rule*

9. At present, the “no double housing benefits” rule as applicable to civil servants also applies to subvented staff. In essence, the civil service rule comprises the following components:

- (a) if a civil servant or the spouse has forfeited his/her eligibility for housing benefits (e.g. having received full housing entitlement from the Government or a subvented body as the case may be, or being disqualified from all forms of housing benefits for whatever reasons), he/she is ineligible for further housing assistance from the Government (i.e. the forfeiture rule);
- (b) home purchasing allowances for civil servants are limited to a maximum aggregate period of 10 years, irrespective of any break in service (i.e. the 10-year rule);
- (c) a civil servant’s maximum 10-year housing entitlement may be reduced by the period during which he/she or the spouse has received housing assistance from the Government or a subvented body (i.e. the reduction rule); and
- (d) a civil servant is ineligible for any housing benefits from the Government if the spouse is receiving housing benefits from his/her employer (i.e. the no-concurrent receipt rule).

Subvented bodies have been required to follow the “no double housing benefits” rule in offering housing benefits to their staff.

10. The Steering Committee reviewed the rather cumbersome application of the “no double housing benefits” rule among subvented bodies. With the control of the total cost of remuneration by cost comparisons for serving senior staff and the first contracts of new recruits to the top three tiers as at Annex C, the Steering Committee saw no need to separately enforce the “no double housing benefits” rule as a general guideline, or to insist on detailed comparison of the housing or other elements of remuneration packages adopted by individual subvented bodies. After all, many subvented bodies offer non-attributable cash allowances in place of housing benefits; the arrangement renders the enforcement of the “no double housing benefits” rule unfruitful.

Notwithstanding the removal of the requirement to enforce the “no double housing benefits” rule, it will be up to individual Directors of Bureaux to decide whether the rule should be separately considered for individual subvented organizations under their purview on a case by case basis.

### **Arrangements for Subvented Staff below the Top Three Tiers**

11. As the Administration will be implementing enhanced arrangements for controlling and monitoring the number, ranking and remunerations of the top management of subvented bodies, there will in effect be a ceiling and broad framework governing how other staff below the top three tiers in subvented bodies would be remunerated. It is also noted that under the accountability system, the Directors of Bureaux should be given greater flexibility in deciding suitable measures for ensuring value for money in the use of subventions by organizations under their purview. This is because, subject to the approval of the Legislative Council where necessary, a Director of Bureau will determine annual funding to subvented bodies under his/her purview from within his/her annual allocation of operating expenditure funding, and is ultimately accountable for monitoring the use of the money granted. Taking into account these considerations, the Administration seeks to strike a balance between control and flexibility. With enhanced controls at the top levels which would in turn present a broad framework for remuneration practices in subvented bodies, detailed arrangements for monitoring the remuneration practices in respect of other staff should be left to the relevant Directors of Bureaux.

12. Accordingly, the Administration has come to the view that the central subvention guideline of “no better than” for application across all subvented organizations and their subvented staff should be removed. This guideline prescribes that the terms of service for subvented staff should not be better than that for comparable staff in the civil service. It focuses only on the cost of remuneration for subvented staff with comparable ranks in the civil service. It does not control ranking and structure of staff, examine cases without comparable civil service ranks or prescribe disclosure arrangements, which are matters covered by the more elaborate set of new guidelines for the top three tiers of subvented staff. It is also noted that continued enforcement or abolition of the “no better than” principle has no bearing on the level of funding to subvented bodies, many of which receive subventions in the form of block grants determined without any reference to the remuneration policies or practices of the organizations.

13. In the absence of a central “no better than” guideline, the Directors of Bureaux will decide suitable measures for ensuring value for money in the

use of subventions by organizations under their purview. They will have the flexibility to decide to, for instance: i) mandate remuneration packages for subvented staff as a condition of subvention; ii) set cost ceilings for remuneration packages; iii) ensure value for money by controlling output rather than checking staff costs; or iv) give subvented bodies a complete free hand in determining their remuneration arrangements but hold their governing boards publicly accountable, etc.

## **IMPLICATIONS OF THE PROPOSAL**

14. The proposal has no sustainability, productivity, economic or environmental implications.

15. The proposal has financial and civil service implications, as set out at Annex D.

## **PUBLIC CONSULTATION**

16. When conducting the second stage of the review covering the 20 selected subvented bodies, relevant bureaux have sought information from these bodies particularly regarding their remuneration packages and practices. We would invite relevant bureaux to follow up with the concerned subvented bodies the review findings and promulgate the new guidelines to subvented bodies under their purview. The Directors of Bureaux will discuss with subvented bodies the implementation details.

## **PUBLICITY**

17. We shall arrange to brief the Legislative Council Members and the media. A press release will be issued and a spokesman will be available to answer media and public enquiries.

## **BACKGROUND**

18. In January 2002, the Government initiated an internal review of remunerations of senior executives of government-funded bodies. The review was conducted in addition to, but as a separate exercise from, the Hay Group's consultancy study of remunerations of senior executives of 10 statutory and other bodies which completed in June 2002. A Steering Committee convened by the Chief Secretary for Administration was set up to oversee the internal review. Under the second stage of the review, the Steering Committee conducted a detailed examination of remuneration of senior executives of 20 selected subvented bodies.

19. In reviewing the 20 selected bodies, the Steering Committee agreed to devise a set of new guidelines to enhance the control and monitoring of remunerations of the top three-tier executives of subvented bodies. In the light of the new guidelines, the Administration also examined the need for continued application of the subvention policy premised upon the “no better than” principle.

## **ENQUIRIES**

20. Enquiries to this Legislative Council Brief may be directed to Mr Sidney Chan, Assistant Director of Administration at telephone no. 2810 2205.

Administration Wing  
25 February 2003

**Summary on the Outcome of Stage II  
of the Internal Review of Remuneration  
of Senior Staff of Selected Subvented Bodies**

**The Ombudsman  
Duty Lawyer Service  
Consumer Council  
Guardianship Board  
Privacy Commissioner for Personal Data  
Hong Kong Academy for Performing Arts  
Hong Kong Council on Smoking and Health  
Society for the Aid and Rehabilitation of Drug Abusers  
Hong Kong Applied Science and Technology Research Institute Co. Ltd  
Hong Kong Jockey Club Institute of Chinese Medicine ltd  
HK Chinese Orchestra Ltd  
HK Dance Company Ltd  
HK Repertory Ltd**

The Steering Committee accepted the responsible Bureau Secretaries' recommendations that there should be no change to the number, ranking and remuneration arrangements for the senior staff in these 13 government-funded bodies.

**Vocational Training Council  
Employees Retraining Board  
Equal Opportunities Commission**

The Steering Committee noted that the existing remuneration packages of the senior staff in the Vocational Training Council and Employees Retraining Board comply with the 'no better than' principle under the existing subvention guidelines. In anticipation of the proposed establishment of a Manpower Development Committee (MDC), originally scheduled for 2003, the Steering Committee accepted SEM's recommendation that the organizational set-up and the staff remuneration packages for these two



bodies should be reviewed in tandem. With the recent establishment of the MDC in October 2002, it is proposed that SEM should conduct the review accordingly, having regard to the progress of the taking over of the functions of the two bodies by the MDC.

SHA has examined the remuneration of the top three-tier executives of the Equal Opportunities Commission (EOC) and confirmed that the arrangements for staff of the second and third tiers were in order. However, SHA has decided to consider the remuneration arrangement for the Chairperson of the Commission in the light of the outcome of the current proposal to legislate against racial discrimination, as such legislation may have a significant impact on the work of the Chairperson.

### **Hong Kong Sports Development Board**

The Steering Committee noted HAB's findings regarding the remuneration packages of four existing senior staff posts. SHA would follow up the matter and modify the remuneration packages for them as appropriate.

### **Hong Kong Philharmonic Society Ltd**

The Steering Committee endorsed SHA's recommendation of downgrading three of its four Assistant General Manager posts (equivalent to MPS point 33-43) at the second tier to the third tier as Senior Managers (MPS point 27-32), leaving only one Assistant General Manager as deputy to the General Manager. This change would bring the management structure of the company more in line with three of the other performing groups. SHA would follow up the matter.

### **Hong Kong Arts Development Council**

Although the full cost of the remuneration package of the Chief Executive post was no higher than that of a D2 officer, the Steering Committee endorsed SHA's recommendation that the Council should be asked to split the salary component into base salary and cash allowance/gratuity in the next contract of

the Chief Executive. Subsequently, the Council agreed and the salary component had been split into base salary, cash allowance and gratuity in the new contract of the Chief Executive.

### **Hospital Authority**

The Steering Committee noted the decision of the Finance Committee in 1991 regarding the remuneration of the staff of the Hospital Authority (HA) and the relevant provisions in the HA Ordinance. The Committee also noted SHWF's findings regarding the existing remuneration packages of the HA and the Authority's proposal for changes. The Steering Committee endorsed SHWF's view that the new guidelines on control and monitoring of remunerations of senior staff of subvented bodies should not be applicable to the HA.

**Exemptions from New Guidelines for the Control and Monitoring of  
Remuneration of Senior Staff of Subvented Bodies**

The new guidelines will not apply to those subvented bodies which receive 50% or less of their operating income from the Government. As for those subvented bodies which receive more than 50% of their operating incomes from the Government, a number of them would also be exempted from the annual review and report requirement. The exempted categories are set out as follows -

(a) Category A

**This covers organizations where government funds are provided as subscription/sponsorship fees** as in the case of the Asia & Pacific Development Centre. In such circumstances, it would not be appropriate for the Government, as a voluntary sponsor to these bodies, to seek to control the organizations' staffing and remuneration expenditure.

(b) Category B

**This covers circumstances where government funds are provided as fees for the procurement of services by an organization** e.g. management of Mai Po by the World Wild Fund for Nature, hire of services in welfare sector and procurement of training places from the Outward Bound Trust of Hong Kong. In such circumstances, it would not be appropriate for the Government, as a service client to these bodies, to seek to control the organizations' staffing and remuneration expenditure.

(c) Category C

**This includes organizations, or particular divisions of certain large organizations, where their top three-tier positions are funded entirely by the organizations' income from sources other than the Government.** Examples include the administrative headquarters of the Tung Wah Group of Hospitals (TWGHs) and the Po Leung Kuk (PLK) where remunerations of their senior executives are funded by the organizations themselves. However, the senior staff of other divisions

or certain subsidiary bodies of those organizations may still be covered by the proposed review and reporting arrangement subject to the latter's particular circumstances.

(d) Category D

**This category includes organizations where their top three-tier positions are filled entirely by civil servants.**

(e) Category E

**It includes organizations that are receiving only limited government funds in monetary terms.** The monetary level will be specified by the Government and is subject to regular review. As a start, we may consider adopting \$10 million a year as the threshold, i.e. organizations receiving subventions of less than \$10 million a year will be exempted.

(f) Category F

**This category covers organizations that are subject to statutory provisions or decisions approved by ExCo/LegCo on staffing matters, and where the provisions/decisions are in conflict with the new guidelines or have prescribed separate monitoring and control mechanisms.** Examples include the Hospital Authority, schools under the Codes of Aid, and UGC-funded institutions. For the UGC-funded institutions, the Steering Committee has accepted the recommendation of SEM that the institutions should be exempted from the proposed guidelines due to a number of considerations, including their established governance structure and the need to maintain their competitiveness in recruiting staff.

## **Cost Comparison for Vetting Remuneration Packages for Top Three Tiers of Staff in Subvented Bodies**

**Section A.** For serving staff appointed before an “Effective Date” to be promulgated and staff recruited on or after the Effective Date but serving in their second or further contracts

The cost comparisons would be based on the annual average staff cost as indicated in the Staff Cost Ready Reckoner (SCRR) published annually by the Treasury. The SCRR provides both the monthly and annual average staff costs for each and every civil service rank. The process is summarized as follows -

- (a) the subvented organization to agree with the Controlling Officer whether the jobs performed by subvented staff in the top three tiers are comparable to those for civil servants and if yes, agree a comparable civil service rank for each group of subvented posts within the top three tiers in the organization;
- (b) the subvented organization to calculate the average of the total annual staff cost for each of the top three tiers of subvented posts, by taking the average of **actual expenditure** incurred on all components in remuneration packages for the concerned staff in the same tier in the past year (except that salary and fringe benefits pegged to salary should also be based on the prevailing monthly salary x 12 months, as in the treatment for the costing of similar components reflected in the SCRR for the civil servants. This is to ensure that the SCRR promptly reflects the effect of any civil service pay adjustment on staff cost; and
- (c) for each tier, the cost in (b) is compared against the annual average staff cost of the comparable civil service rank(s) (there may be more than one comparable rank if there are more than one group of subvented staff within the same tier) as expressed in the prevailing SCRR. A subvented organization will have passed the test on cost comparison if the cost in (b) is at or below the SCRR cost.

**Section B.** For staff recruited on or after the Effective Date and serving their first contracts

The same procedures in Section A above apply, except that the benchmark for comparison will not be the SCRR, but recruitment benchmarks reflecting the lower cost of the prevailing remuneration packages for new recruits to the comparable civil service rank(s). In the first instance, the recruitment benchmark will be calculated by reference to the New Term for civil service appointments applicable since 2000. The recruitment benchmark will be adjusted from time to time having regard to changes to civil service remuneration structures and policies.

## **FINANCIAL AND STAFFING IMPLICATIONS**

Full implementation of the Steering Committee's review findings vis-à-vis the 20 selected bodies may bring about some saving in staffing expenditure for these bodies. Under the "envelope" approach, relevant Directors of Bureaux will consider whether and how they may adjust the amount of subvention for these bodies.

2. The proposal to do away with the "no better than" subvention guideline will not have direct impact on the level of funding for individual organizations, since the guideline is a test on value-for-money rather than a criterion determining annual subventions. Under the "envelope" approach, the level of funding for individual subventions, as well as any funding clawed back for non-compliance with the "no better than" subvention guideline, are matters between the Directors of Bureaux and the subvented bodies under their purview. There will be no financial implications for the centre.

3. As for the implications on the civil service, the proposed regular monitoring mechanism for remunerations of the top three tiers of senior executives in the subvented sector may increase the workload of the Controlling Officers, but the latter should be capable of absorbing this within existing resources. We do not envisage it to bring about any increase or decrease in civil service posts.