

**Extract from the minutes of the meeting
of the Panel on Public Service on 15 December 2003**

X X X X X X X X

III. Update on review of remuneration of senior executives of statutory and other bodies

(LC Paper No. CB(1)296/03-04(04) — Paper provided by the Administration

File Ref: CSO/ADM CR3/1136/02 — Legislative Council Brief on “Review of remuneration of senior executives of statutory and other bodies” issued by the Administration Wing (with the consultants’ Final Report)

LC Paper No. CB(1)2150/01-02(01) — Statement made by the Chief Secretary for Administration at the Council meeting on 26 June 2002

LC Paper No. CB(1)171/02-03 — Minutes of special Panel meeting on 3 July 2002)

4. The Chairman pointed out that the Administration had commissioned a consultancy study on the remuneration of senior executives of ten selected statutory and other bodies in January 2002 (the Review). Following the release of the findings of the study in June 2002, the Administration briefed the Panel on the findings at its meeting on 3 July 2002. At the request of the Panel, the Administration had undertaken to consult the ten bodies through relevant bureaux and provide the Panel with an update on their responses to the study findings, and information on the remuneration package, contract expiry dates and pay adjustment trend for the past five years in respect of the top three tiers of senior executives in the selected bodies. The Chairman drew members’ attention to the paper provided by the Administration in this regard (LC Paper No. CB(1)296/03-04(04)).

Briefing by the Administration

5. The Director of Administration (D of Adm) recapped that the main tasks of the consultancy study were to determine whether the remuneration packages of the senior executives in the selected bodies were in line with those holding comparable positions in the private sector, and to establish for them comparable and competitive remuneration packages. The consultant's recommendations on the remuneration levels and mixes were based on its analysis of the remuneration of the comparison companies and application of the following principles:

- (a) The median of the total remuneration of the relevant positions of the comparison group should provide a reasonable and competitive benchmark for the position under review;
- (b) Qualitative factors pertaining to the position under review such as prestige, opportunity to serve Hong Kong and degree of public scrutiny should be taken into consideration and an adjustment would be applied to the medium if considered appropriate;
- (c) The prevailing mix (i.e. percentage of fixed versus variable remuneration) of the remuneration packages of the comparison companies should provide the basis for deriving a recommended mix for the relevant position in the selected body. However, the governing board or committee of a selected body would have the flexibility to adopt its own preferred mix instead of the recommended mix. In adopting its preferred mix, the body should use the consultant's recommended conversion factor to work out the equivalent remuneration package should it wish to have a more significant portion of fixed pay versus the variable pay or vice versa.

6. D of Adm further pointed out that the consultant had recommended that the governing boards or committees of selected bodies should continue to have the discretion to take into account other factors in determining the remuneration of their senior executives. These factors might include the market pay condition for special functional areas; the competence, qualification and performance of a particular individual; and differences in job nature and levels of accountability. If a selected body considered the background, capability or performance of a particular individual serving as the chief executive should justify a higher or lower remuneration than the market median, it could offer him or her a correspondingly different package from what the consultant had recommended. For the second and third tier positions, variations within the range of plus or minus 25% from the

consultant's recommended remuneration levels were considered acceptable, particularly to take account of the diverse functions and responsibilities that individual division heads might carry out at their levels.

7. D of Adm said that on the whole, the ten bodies had responded positively to the consultant's recommendations. Relevant bureaux had also confirmed their acceptance of those areas where individual bodies had proposed modifications. As explained in the consultancy report, the recommended remunerations derived from the market data collected by the consultant provided the benchmarks for comparison but they did not represent the ceiling or minimum levels. Governing boards or committees of the bodies might decide to pay individual executives higher or lower remunerations depending on the individuals' special skills, capabilities and performance. D of Adm also assured members that 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.

Discussion

Remuneration mix

8. Mr CHEUNG Man-kwong expressed his dissatisfaction about the way the selected bodies had implemented the consultant's recommendations. Referring to item 3(a) of the Annex to the paper provided by the Administration, Mr CHEUNG noted that only three of the ten selected bodies had adopted the consultant's recommendations on remuneration mix. Six selected bodies had adopted a modified approach. For example, while the recommended mix for the first tier of the Hong Kong Airport Authority (HKAA) was 60:40 (fixed pay: variable pay), HKAA continued with its variable pay scheme under its current remuneration mix, i.e. 80:20 for the first tier. Mr CHEUNG queried why the relevant bureau had accepted this approach. In reply, D of Adm reiterated that the governing board or committee of a selected body had the flexibility to use the consultant's recommended conversion factor to work out an equivalent remuneration package for its preferred mix should it wish to have a more significant portion of fixed pay versus the variable pay or vice versa. In the case of HKAA, the current remuneration of its senior executives were in line with the remunerations recommended by the consultant if the conversion factor was applied for comparison.

9. Mr CHEUNG Man-kwong and Mr LEE Cheuk-yan were of the view that the entire review exercise would be meaningless if the governing boards or committees of the selected bodies were given the discretion to exercise flexibility in the implementation of the consultant's recommendations. Mr CHEUNG

considered it unfair and unreasonable for these bodies which were funded by public moneys to enjoy such a great degree of flexibility in determining the remuneration of their senior executives. He opined that the Government representatives in the governing boards or committees of the selected bodies should vote in support of the implementation of the recommendations to demonstrate the Administration's determination to put these into practice. Otherwise, the selected bodies would operate like independent kingdoms which were not subject to the monitoring of the LegCo or the Government.

10. Mr CHEUNG Man-kwong considered that in adopting a remuneration mix comprising fixed pay and variable pay, there should be some objective criteria in determining the amount of variable pay. D of Adm explained that the amount of variable pay was normally determined by relevant governing boards on the basis of the performance of individual executives and/or the organizations in general during the year of assessment. This practice was adopted by many private sector companies.

Remuneration levels of CE/HKMA, CEO/HKAA and CEO/HKSTPC

11. Mr CHEUNG Man-kwong expressed his grave concern that the existing remuneration levels of the Chief Executive of the Hong Kong Monetary Authority (CE/HKMA), the Chief Executive Officer of HKAA (CEO/HKAA), and the Chief Executive Officer of the Hong Kong Science and Technology Parks Corporation (CEO/HKSTPC) were higher than those recommended by the consultant by \$1 million, \$0.6 million and \$0.4 million respectively. Mr CHEUNG was of the view that the existing remuneration packages for these senior executives should be adjusted downward in accordance with the targeted remuneration levels recommended by the consultant. Mr SIN Chung-kai supported his views.

12. D of Adm advised that the remuneration levels recommended by the consultant should be regarded as indicative rather than absolute references. He reiterated that if the governing board or committee of a selected body considered that the background, capability or performance of a particular individual serving as the chief executive should justify a higher or lower remuneration than the market median, it could offer him or her a correspondingly different package from what the consultant had recommended. Moreover, the Administration appreciated the need for the selected bodies to fulfill their obligations under existing employment contracts, and that the bodies might not be able to adjust the remuneration levels of their senior executives downward during the contract period. In this connection, Mr CHEUNG Man-kwong noted that the existing employment contracts for the CEO/HKAA and CEO/HKSTPC would expire in December 2003 and March 2005 respectively. Noting that CE/HKMA was employed on continuous contract terms, Mr CHEUNG queried when his remuneration level would be reviewed and

adjusted. D of Adm advised that HKMA had an annual pay adjustment mechanism.

13. Mr SIN Chung-kai opined that the Financial Secretary (FS), being the Principal Official overseeing HKMA, should be responsible for determining the remuneration level of CE/HKMA. As the remuneration level of CE/HKMA was higher than that recommended by the consultant by \$1 million, Mr SIN requested FS to adjust downward the remuneration level of CE/HKMA. Mr CHEUNG Man-kwong raised the same request. In response, D of Adm said that he did not see the justifications for the request. He pointed out that in determining the remuneration level of CE/HKMA, FS, on the advice of the Exchange Fund Advisory Committee (EFAC) and its Remuneration and Finance Subcommittee (RFS), had taken account of the prevailing market median and the practicalities in attracting candidates of the right calibre, expertise and experience. He added that the fixed-pay component of the CE/HKMA's remuneration had been adjusted downwards in the past two years.

14. Mr SIN Chung-kai considered it inappropriate for EFAC, which comprised mainly members of the banking sector, and its RFS to consider the remuneration proposals for CE/HKMA. Pointing out that there was no comparable post in the private sector, Mr SIN queried how the market median for the post of CE/HKMA had been worked out. In this connection, he noted that the comparison companies for HKMA comprised a representative group of banks. Given the great differences in job nature and responsibilities between CE/HKMA and those of the chief executive officers (CEOs) of banks, Mr SIN considered it inappropriate to compare the remuneration packages of the two. Mr Albert CHAN shared his view.

15. Mr LEE Cheuk-yan considered that reference should be made to comparable positions in overseas jurisdictions. Referring to the information provided in the consultancy report on the remuneration of Dr Alan Greenspan, Chairman of the Federal Reserve in the United States (less than US\$140,000 per year) and the remuneration of the Chairman of the Financial Service Authority in the United Kingdom (£ 290,000 for the year 2000-01), Mr LEE pointed out that the remuneration level of CE/HKMA was comparatively high. Mr LEE and Mr CHEUNG Man-kwong queried whether the remuneration level of CE/HKMA was justified. Mr CHEUNG opined that FS should provide the Panel with his views on the implementation of the consultant's recommendations by HKMA, in particular, his views on the remuneration level of CE/HKMA. Pointing out that the public and Members of the Democratic Party were very concerned about the issue, Mr CHEUNG urged FS to address the issue as soon as possible.

16. The Chairman invited D of Adm to convey members' concern about the

remuneration level of CE/HKMA to FS.

(Post-meeting note: The Administration's response was circulated to members vide LC Paper No. CB(1)772/03-04(01) on 13 January 2004.)

Propriety of the principles adopted by the consultant in the formulation of remuneration recommendations

17. Mr LEE Cheuk-yan commented that the review had started with an incorrect approach of making reference to the remuneration of the top three levels of executives in private sector companies. He said that in reviewing the remuneration packages for senior executives in the selected bodies which were public bodies, the qualitative factors of recognition and honour their jobs commanded should be taken into account and hence reference should be made to the remuneration packages for comparable positions in the civil service instead, such as the remuneration packages for the Principal Officials under the Accountability System.

18. In response, D of Adm explained that in assessing the propriety of the remuneration packages for the senior executives, it was worth noting that all of the selected bodies had to compete with the private sector for managerial staff with special experience and expertise. Many of them were also required to operate under prudent commercial principles. He also drew members' attention that the targeted remuneration levels recommended by the consultant represented the market median and not the highest level of remuneration in the private sector. As regards the remuneration package for Principal Officials, D of Adm pointed out that the package had been worked out by making reference to the remuneration packages of CEOs in the private sector, with a discount of 34% to 39% of the median level of total remuneration of these CEOs.

19. Mr LEE Cheuk-yan did not agree that the selected bodies were operating under commercial principles. Quoting the Urban Renewal Authority (URA) and the Hong Kong Tourism Board (HKTB) as examples, Mr LEE commented that while the chief executive officers (CEOs) of these bodies were required to possess knowledge of the market, they were not required to lead and manage the respective bodies for profit-making purpose. The nature of their jobs was not really comparable with that of CEOs in the comparison companies, such as property development and management companies for URA and travel agencies for HKTB. Mr Albert CHAN shared Mr LEE Cheuk-yan's view.

20. D of Adm responded that as explained in the consultancy report, the remuneration comparison group for CEO (or equivalent) of each selected body was developed by identifying positions of similar scope and responsibility drawn from

the relevant comparison group. These comparison positions might or might not be CEOs in the comparison group but were selected by considering factors such as the size of the organization, and the scope and nature of the jobs. As such, the recommended remuneration packages for the CEOs of URA and HKTB were not necessarily derived by making reference to the remunerations of all the CEOs of their comparison companies. He appreciated that members might have different views on the appropriate remuneration levels for the senior executives of these bodies. However, the appropriate remuneration levels could hardly be determined without objective information on the remuneration levels of comparable jobs in the market.

21. Mr LEE Cheuk-yan doubted the propriety of selecting companies such as the South China Morning Post, Hewlett-Packard and IBM etc. as comparison companies for HKTB. He was also concerned that comparison with these large scale profit-making enterprises would result in recommending unreasonably high remuneration packages for the Executive Director of HKTB. He considered the methodology of the consultancy study unacceptable and requested the Administration to commission another review. Mr LEE also requested D of Adm to provide further information on the way the positions in the comparison companies for HKTB were selected to provide reference for deriving the recommended remuneration for the first three tiers of senior executives of HKTB.

(Post-meeting note: The supplementary information provided by the Administration was circulated to members vide LC Paper No. CB(1)772/03-04(01) on 13 January 2004.)

22. Mr LEE Cheuk-yan maintained his view that the senior executives, in particular CEOs of the selected bodies, were enjoying unreasonably high pay packages. He opined that instead of drawing reference to the market median, the targeted remuneration levels for these senior executives should follow the practice of that for Principal Officials, by having a discount of around 30% of the median level of remuneration for CEOs in the private sector. Moreover, he considered that reference should be made to the remuneration packages for comparable positions in public bodies in overseas jurisdictions.

23. Mr CHEUNG Man-kwong and Mr Albert CHAN shared Mr LEE's view on the unreasonable high level of remuneration enjoyed by the senior executives of the selected bodies. Mr CHAN shared Mr LEE's view that reference should be made to the overseas remuneration practices for senior executives of public or statutory bodies.

24. D of Adm explained that the Administration had requested the consultant to provide information on the remuneration practices in overseas central banks and

financial regulators for reference and the findings were in Appendix 3 of the consultancy report. He reiterated that in taking forward the consultant's recommendations, the Administration would follow the established principles of the consultant's report. He pointed out that the purpose of this meeting was for the Administration to brief members on the up-to-date progress of the Review, including the responses of the governing boards or committees of the selected bodies on the implementation of the consultant's recommendations and the respective bureaux' views. It would be unfair to make any conclusion based on the existing remuneration levels of senior executives in the bodies concerned, as some of the recommendations had yet to be put into practice due to contractual obligations which the bodies had to observe. Respective bureaux would monitor the implementation of the recommendations through the annual review and reporting mechanism and should the need arise, the bureaux would explain the detailed remuneration arrangements in each of the ten bodies to the relevant LegCo Panels.

Appointment of remuneration committees of the selected bodies

25. Miss CHAN Yuen-han referred to the consultant's recommendation on the need for each selected body to have a remuneration committee to be responsible for endorsing all remuneration arrangements with respect to senior executive pay. However, this recommendation was not covered in the responses of the selected bodies. She opined that for transparency and impartiality in remuneration arrangements, appointment of the remuneration committee should be made by independent parties other than the governing board or committee of a selected body.

26. D of Adm explained that the consultant's recommendation on remuneration committee was that each body should appoint a specific committee for the consideration of remuneration policies and determination of salary adjustments. The consultant had not recommended the appointment of an independent remuneration committee. The Administration recognized the statutory role of many of the governing boards or committees in deciding on and overseeing the propriety of their remuneration policies and arrangements. The Administration would ensure that these selected bodies would each establish a fair and transparent mechanism for the review and determination of its remuneration and related arrangements. D of Admin also pointed out that the consultant's recommendation for disclosure of remuneration of senior executives would, in the long run, enhance the transparency of the remuneration arrangements of the selected bodies.

27. Miss CHAN Yuen-han commented that the Administration should further enhance the transparency in the appointment of senior executives of the selected

bodies and rectify the current situation that majority of these senior positions were held by former senior Government officials. Mr Albert CHAN shared her view.

Implementation timeframe

28. Ms LI Fung-ying was concerned about the timeframe for implementing the consultant's recommendations by the selected bodies. Referring to Annex A to the paper provided by the Administration where it was stated that a number of selected bodies had indicated the need to implement the recommendations upon expiry of current contracts or new appointment, Ms LI asked whether effective measures were in place for the Administration to monitor the implementation. Mr HUI Cheung-ching shared her concern and opined that the Administration should ensure that the selected bodies would comply with the consultant's recommendations.

29. In response, D of Adm pointed out that the implementation timeframe provided by the selected bodies were set out in item 9 of Annex A to the paper. He reiterated that the consultant's recommendations were in general adopted by the selected bodies with necessary modifications in certain cases. The Administration had undertaken to establish an annual reporting mechanism between these bodies and the respective bureaux as recommended by the consultant.

Way forward

30. The Chairman concluded that from the discussion at the meeting, it was obvious that Members did not agree with the principle of assessing the remuneration packages of senior executives of the selected bodies by making reference to those in the private sector. In Members' view, the current remuneration levels of these senior executives were on the high side. As the ten selected bodies were all committed to report to the bureaux concerned annually on the detailed remuneration arrangements for their senior executives and the implementation of the consultant's recommendations, the Chairman considered that Members who would like to follow up the issue might do so by inviting the bureaux concerned to report the progress to the relevant Panels.

X X X X X X X X