

Legislative Council Panel on Constitutional Affairs

Remuneration Package for Politically-Appointed Officials Serving in the Sixth-Term HKSAR Government

This paper briefs Members on the report 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 (“the Independent Commission”)¹ on the remuneration package for politically-appointed officials (“PAOs”) serving in the sixth-term HKSAR Government (“HKSARG”).²

THE REVIEW

2. The Independent Commission has completed a review of the remuneration package for existing positions of PAOs, on the basis that such positions will continue to exist in the sixth-term HKSARG, i.e. from 1 July 2022 to 30 June 2027. A copy of the Independent Commission’s report is at **Annex**. The key deliberations and recommendations of the Independent Commission are set out in the ensuing paragraphs.

GENERAL PRINCIPLES AND CONSIDERATIONS

3. During the review process, the Independent Commission has paid due regard to the following general principles and considerations –

- (a) the main objective is to ensure that the overall remuneration package is commensurate with the level of responsibilities of PAOs so as to facilitate recruitment and retention of high calibre talents;

¹ The Independent Commission, appointed by the Chief Executive, is chaired by Mr Carlson TONG, GBS, JP. Other members are Mr Kevin LAM Sze-cay, Ms Winnie TAM Wan-chi, SBS, SC, JP, Mr Philip TSAI Wing-chung, BBS, JP, Professor Alexander WAI Ping-kong and Ms Winnie WONG Chi-shun, JP.

² PAOs mean officials under the Political Appointment System. For the fifth-term HKSARG, the team of PAOs comprises 43 positions, namely three Secretaries of Department, 13 Directors of Bureau, one Director of the Chief Executive’s Office (whose terms of employment should align with a Director of Bureau as approved by the Finance Committee of the Legislative Council in June 2007), 12 Deputy Directors of Bureau and 14 Political Assistants.

- (b) there is no need to compare with remuneration packages of top executives in the private sector given the inherent differences in the remuneration systems between the private and public sectors. PAOs are motivated primarily by their aspiration in serving the community and the remuneration package is relatively a less important factor in deciding whether to take up the appointment;
- (c) it is also not necessary to conduct a benchmark study against the civil service. The remuneration for PAOs should not be pegged to that of the civil service since the roles and responsibilities of the two are different. However, as a matter of principle, the remuneration of Directors of Bureau (“DoBs”) should not lag behind that for permanent secretaries in the civil service as DoBs are ultimately responsible for the designated policy portfolios and accountable for the performance of the underpinning executive departments;
- (d) the mechanism to remunerate PAOs should be sustainable so that the real value of their remuneration is maintained;
- (e) the remuneration package, including the non-cash components, should be fair to the PAOs having regard to their unique roles and responsibilities; and
- (f) the Independent Commission is not in a position to judge the performance of PAOs, nor would it be appropriate for the Commission to take into account the performance of the government when considering the remuneration level of PAOs.

DELIBERATIONS OF THE INDEPENDENT COMMISSION

Cash remuneration of PAOs

4. The cash remuneration of DoBs is the benchmark for determining the levels of cash remuneration for other PAOs. Following the Finance Committee (“FC”) of the Legislative Council’s (“LegCo”) approval in 2017 –

- (a) with effect from 1 July 2017, the monthly cash remuneration for DoBs was adjusted to \$333,900; and

- (b) with effect from 1 July 2018, cash remuneration for PAOs has been adjusted on an annual basis in accordance with the change in the average annual Consumer Price Index (C) (“CPI(C)”)³.

There have since been two adjustments to PAOs’ cash remuneration under the annual adjustment mechanism, i.e. 1.9% on 1 July 2018 and 2.3% on 1 July 2019. The monthly cash remuneration for DoBs has been adjusted to the level of \$348,100.

5. The Independent Commission notes that the Chief Executive (“CE”) had decided not to make upward adjustment to the salary for PAOs in 2020 and 2021 notwithstanding the positive change in CPI(C) as part of the concerted efforts to tide over the challenging times of COVID-19 epidemic with the community. The current cash remuneration for PAOs has thus been kept at July 2019 level, and will remain till 30 June 2022.

6. The Independent Commission is satisfied that the annual adjustment mechanism remains objective, scientific and transparent, which ensures that the remuneration of PAOs in terms of actual purchasing power is maintained and adjusted in line with movements of inflation. It would be prudent to continue with the established mechanism that remains effective for the sake of sustainability.

7. The Independent Commission considers that the pay freeze for serving PAOs in 2020 and 2021 is a decision made by the fifth-term Government under the prevailing social, economic and political environment. It is voluntary in nature and should only be applicable to PAOs serving in the fifth-term Government. Following the annual adjustment mechanism as approved by the FC in 2017, the cash remuneration for PAOs in the sixth-term Government should be adjusted in accordance with the change in the average annual CPI(C) since 1 July 2019. Otherwise, the cash remuneration for PAOs in the sixth-term Government would be lagging behind the cumulative inflation in the past three years.

³ Under the annual adjustment mechanism –

- (a) the cash remuneration for PAOs be adjusted on 1 July every year, with effect from 1 July 2018;
- (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
- (c) the authority to approve the future annual adjustment to the level of cash remuneration for PAOs on the basis of the above mechanism be delegated to the Permanent Secretary for Financial Services and the Treasury (Treasury).

8. Taking all relevant factors into consideration, the Independent Commission recommends that the cash remuneration for DoBs should be adjusted in accordance with the change in average annual CPI(C) since 1 July 2019 following the mechanism as agreed. This only serves to restore the original levels of the cash remuneration package as approved by the FC in 2017 and should not be construed as a pay rise. The cash remuneration for DoBs serving in the sixth-term Government with effect from 1 July 2022 would be calculated on the basis of the nominal cash remuneration for 2021-22⁴ of \$357,150 per month and subject to adjustment based on the change in average annual CPI(C) ending May 2022. Under the recommendation, the remuneration of other layers of PAOs (viz., Secretaries of Department (“SoDs”), Deputy DoBs (“DDoBs”) and Political Assistants (“PAs”)) would be adjusted accordingly in line with the existing differential percentages.

Pay Differential among SoDs, DoBs and DDoBs

9. On the basis that there is no substantial change in the roles and responsibilities of SoDs, DoBs and DDoBs, the Independent Commission recommends that the pay differential between DoBs, Secretary for Justice (“SJ”), Financial Secretary (“FS”), and Chief Secretary for Administration (“CS”) be maintained at 3.5% for each tier, and the cash remuneration for DDoBs continues to be set at 65%, 70% or 75% of that for a DoB for the sixth-term HKSARG.

Cash remuneration for PAs

10. In view that the existing system has been working well, the Independent Commission recommends that the cash remuneration for each PA engaged by a SoD or DoB should continue to be capped at 35% of that for a DoB. The SoD or the DoB may continue to decide on the exact level that his/her PA should be paid within the 35% ceiling based on the functional requirement of the job, and to redeploy any unspent savings to engage other support in order to achieve the objectives of the respective bureau or department in the most cost effective manner.

Other remuneration components

11. In addition to cash remuneration, PAOs are also eligible for –

⁴ The nominal cash remuneration for 2021-22 (\$357,150 per month for DoB) is calculated based on the actual cash remuneration as at 1 July 2019 adjusted by the change in the average CPI(C) over the past 12 months ending May 2020 and May 2021, i.e. 2.5% and 0.1% respectively.

- (a) annual leave of 22 working days per annum;
- (b) medical and dental benefits on the same basis as those provided to civil servants during the term of their employment;
- (c) Mandatory Provident Fund contribution by the HKSARG;
- (d) use of car and driver when in Hong Kong at his/her discretion for each of the SoDs and the DoBs as well as for the Director of the CE's Office. Departmental transport for DDoBs is provided by relevant policy bureaux/offices from their internal resources; and
- (e) an official residence with domestic staff and a non-accountable entertainment allowance for each of the SoDs.

12. The Independent Commission generally considers that the above components should continue to be adopted for PAOs serving in the sixth-term HKSARG. However, some improvements on the annual leave arrangements, and the medical and dental benefits are worthy of further examination.

13. The Independent Commission notes that currently, subject to a maximum accumulation limit of 22 working days, any accumulated leave will be forfeited upon the PAOs leaving office. This is different from the arrangements for employees in statutory bodies, as well as civil servants on new agreement terms, under which officers are allowed to encash their leave balance accrued up to and including the end date of the appointment (with the accumulation limit being set as twice the number of days of the vacation leave earned per year).

14. Having regard to the roles and responsibilities of PAOs, the Independent Commission recognises that it is difficult for PAOs to take leave during their term of office due to work requirements and it is impracticable for PAOs to take all their accumulated leave in one block as in the case of retiring civil servants before their term of appointment ends. The Independent Commission considers that, within the parameters of the stipulated annual leave entitlement of 22 working days, there should be a suitable degree of flexibility to allow PAOs to carry forward part of their untaken annual leave to the following year, and that part of their untaken leave can be encashed upon leaving office.

15. Modelling on the leave arrangements of some statutory bodies⁵ and, taking into account the importance of work-life-balance, the Independent Commission recommends that, with effect from the sixth-term HKSARG, the maximum accumulation limit of annual leave for PAOs be increased from 22 working days to 33 working days and not more than half of their annual leave entitlement, i.e. 11 working days, can be encashed upon PAOs' resignation, termination of contract or at the end of term of the contract.⁶ Any leave balance that exceeds the limit of 11 working days will be forfeited.

16. The Independent Commission considers that the level of medical and dental benefits that different layers of PAOs should be entitled to require careful examination and justification. The Independent Commission undertakes to conduct a review before the end of its current term of appointment (i.e. 31 March 2025).

17. As regards the rest of the non-cash components of the remuneration package, the Independent Commission recommends no change at this stage.

SUMMARY OF RECOMMENDATIONS

18. In summary, the recommendations of the Independent Commission are set out in (a) to (h) below –

- (a) the remuneration for PAOs should continue to be adjusted annually in line with the movement of CPI(C);
- (b) with effect from 1 July 2022, cash remuneration for DoBs be restored to the level of \$357,150 per month subject to annual adjustment based on the change in the average annual CPI(C) for the year ending May 2022;
- (c) the differential in cash remuneration between DoBs, SJ, FS and CS remains at 3.5% for each tier;

⁵ Employees of the statutory bodies taken as reference are allowed to carry forward the untaken annual leave subject to the accumulation limit that ranges from one and a half years to two years of leave entitlement, and encashment of leave balance accrued up to and including the end date of the appointment.

⁶ Encashment of leave balance that is less than 11 working days will be calculated on a pro-rata basis.

- (d) the cash remuneration for DDoBs continues to be maintained at 65% to 75% of that for a DoB;
- (e) the cash remuneration for each PA engaged by a SoD or DoB continues to be capped at 35% of that for a DoB;
- (f) the maximum accumulation limit of annual leave for PAOs be increased from 22 working days to 33 working days;
- (g) encashment of untaken annual leave be capped at half of the annual leave entitlement (i.e. 11 working days) upon the PAOs' resignation, termination of contract or at the end of term of the contract; and
- (h) no change to the rest of the non-cash components of the remuneration package for PAOs at this stage.

IMPLICATIONS OF THE PROPOSALS

19. The recommendation to restore the cash remuneration for DoBs to the nominal level of \$357,150 per month subject to annual adjustment based on the change in the average annual CPI(C) for the year ending May 2022, as well as any future annual adjustments in line with the movement of CPI(C), falls within the mechanism as approved by the FC in 2017. The recommendation on leave encashment might involve a maximum of \$3.92 million.⁷ The financial implications of the recommendation are not significant and are expected to be absorbed from within the existing envelope allocations for individual PAO's bureaux or departments.

20. The recommendations are also in conformity with the Basic Law, including the provisions concerning human rights. It has no civil service, economic, productivity, environmental, sustainability, family or gender implications.

⁷ This is calculated based on current cash remuneration level as at 1 July 2019, and on the assumption that (a) all 43 PAOs are leaving the Government at the same time; and (b) all of them are to encash the maximum entitlement of 11 working days.

BACKGROUND

21. In 2002, the Government introduced the political appointment system (“PAS”), such that positions of the three Secretaries of Departments, i.e. CS, FS and SJ, and DoBs will be filled by PAOs.

22. Back in 2002, the Government retained a Human Resources consultant to conduct a study to ensure PAOs were provided with an appropriate remuneration package. Taking into account the consultant’s recommendations, the HKSARG proposed, and the FC approved in June 2002, a remuneration package comprising -

- (a) cash remuneration of \$298,115 per month for DoBs, which was equivalent to the annual weighted average costs to the taxpayer of the remuneration package for civil servants at D8 level;
- (b) the differentials between DoBs, SJ, FS and CS be set at 3.5% for each tier; and
- (c) other benefits set out in paragraph 11 above.

CE may at his discretion order a review, from time to time, of the remuneration packages of PAOs. As stated in FCR(2002-03)21, the Government will seek the FC’s approval for adjustments to the remuneration packages.

23. In 2007, the PAS was expanded with the creation of two additional layers of PAOs, namely, DDoBs and PAs. In December 2007, the FC approved the cash remuneration for DDoBs and PAs to be pitched at two respective ranges as follows -

- (a) DDoBs: equivalent to 65%, 70% or 75% of the cash remuneration for a DoB; and
- (b) PAs: equivalent to 35%, 40%, 50% or 55% of the cash remuneration for a DoB.

24. DDoBs and PAs were also eligible for broadly the same benefits as those enjoyed by DoBs, except that they would not be entitled to the use of car and driver. Transport for DDoBs would be provided by relevant policy bureaux/offices from their internal resources.

25. Starting from 2008, the Independent Commission is required by its terms of reference to carry out periodic review of the remuneration package for officials under the PAS, say once every five years and normally about a year before the start of a new term of the HKSAR Government. So far, two reviews had been conducted by the Independent Commission on the remuneration package for PAOs serving in the fourth-term and fifth-term Government in 2012 and 2016.

26. In the 2012 review, the Independent Commission's recommendations included adjusting the cash remuneration for PAOs annually in line with the movement of the CPI(C); to increase the cash remuneration for DoBs by 15.3% (equivalent to the cumulative increase in the CPI(C) from 2002 to 2011); to cap the total cash remuneration of PAs at \$1.2 million per annum or \$100,000 per month, such that it would give the concerned SoD or DoB more flexibility to engage more PAs with a wider range of experience and background; to propose the remuneration package of Deputy Secretaries of Department ("DSODs") (if such posts are to be created); and encashment of unspent annual leave. However, owing to the continued filibustering concerning the re-organisation of the Government Secretariat of the fourth-term Government, the proposals submitted by the Government to the FC could not be put to vote before LegCo's prorogation in July 2012. As a result, the PAOs' remuneration package remained unchanged.

27. In anticipation of the fifth-term Government assuming office in July 2017, the Independent Commission commenced a review in 2016. The then real value of the pay level of PAOs was considered to have substantially fallen behind inflation as pay levels of PAOs' remuneration had remained unchanged since 2002 (or 2007 in the case of DDoBs and PAs). In the course of the review, the Independent Commission was of the view that an objective and transparent annual adjustment mechanism should be devised.

28. The key recommendations made by the Independent Commission in 2016 included: to adjust the remuneration for PAOs annually in line with the movement of the CPI(C); to increase the cash remuneration for DoBs by 12.4%⁸ starting from 1 July 2017, which was equivalent to the cumulative change in CPI(C) from 2012 to 2016, i.e. from \$298,115 to \$335,100 per month; and to cap the cash remuneration for each PA engaged by a SoD or DoB at 35% of the remuneration of DoBs,

⁸ Updated to 12% in February 2017 based on the then latest CPI(C) movements. Please refer to paragraph 29(a).

i.e. not more than \$104,340 per month. It would be for the SoD or the DoB to decide on the exact level that his/her PA should be paid within the ceiling based on the functional requirements of the job, and how to redeploy any savings to engage other support in order to achieve the policy objectives of the respective bureau or department in the most cost effective manner.

29. The Government accepted the Independent Commission's recommendations in its entirety and secured the approval of FC on 10 February 2017 that:

- (a) with effect from 1 July 2017, cash remuneration for PAOs be adjusted according to the cumulative change in CPI(C) from 2012 to 2016, i.e. increased by 12%; and
- (b) with effect from 2018, cash remuneration for PAOs as approved by the FC of the LegCo be adjusted on an annual basis in accordance with the change in the average annual CPI(C).

30. As at 30 April 2022, the PAS comprises 43 positions, of which 39 are filled.

**Constitutional and Mainland Affairs Bureau
May 2022**

**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**

**Report on the Remuneration Package for
Politically-Appointed Officials serving in the
Sixth-Term HKSAR Government**

April 2022

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CHAPTER 1: INTRODUCTION

1.1 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”) is appointed by the Chief Executive (“CE”) to advise the Government on, inter alia, the remuneration package for Members of the Executive Council (“ExCo”), the Legislative Council (“LegCo”) and Politically-Appointed Officials (“PAOs”). The terms of reference and membership of the Independent Commission are at [Annex A](#) and [Annex B](#) respectively.

1.2 The Independent Commission is required by its terms of reference to “carr(y) 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”. The Independent Commission has completed a review of the remuneration package for PAOs¹ serving in the sixth-term HKSAR Government (“HKSARG”), i.e. from 1 July 2022 to 30 June 2027. The considerations and recommendations of the Independent Commission are set out in Chapters 2 to 5.

Background

1.3 In 2002, the Government introduced the political appointment system (“PAS”), such that positions of the three Secretaries of Departments (“SoDs”), i.e. the Chief Secretary for Administration (“CS”), Financial Secretary (“FS”) and Secretary for Justice (“SJ”), and the Directors of Bureau (“DoBs”) will be filled by PAOs.

¹ PAOs under the Political Appointment System refer to the Chief Secretary, Financial Secretary, Secretary for Justice, and the Directors of Bureau, Director of the Chief Executive’s Office, the Deputy Directors of Bureau and Political Assistants.

1.4 Back in 2002, the Government retained a Human Resources consultant to conduct a study to ensure PAOs were provided with an appropriate remuneration package. The consultant considered that “service as a principal official is expected to be motivated primarily by a desire to serve the Hong Kong society and the honour conferred on the official through this service,” but at the same time recognised that “principal official will hold positions that are comparable to those of Chief Executive Officers (“CEOs”) in major private and public organisations”. Taking into account the consultant’s recommendations, the HKSARG proposed, and the Finance Committee (“FC”) of the LegCo approved in June 2002, a remuneration package comprising:

- (a) cash remuneration of \$298,115 per month for Directors of Bureau (“DoBs”), which was equivalent to the annual weighted average costs to the taxpayer of the remuneration package for civil servants at D8 level, and that the differentials between DoBs, Secretary for Justice (“SJ”), Financial Secretary (“FS”) and Chief Secretary for Administration (“CS”) be set at 3.5% for each tier;
- (b) other benefits including:
 - annual leave of 22 working days, which will be forfeited upon PAOs’ resignation, termination of contract or at the end of term of the contract;
 - medical and dental benefits as those provided to civil servants during the term of employment;
 - Mandatory Provident Fund (“MPF”) contribution by the HKSARG;
 - car and driver for use at the discretion of each of the principal officials; and
 - an official residence with domestic staff and a non-accountable entertainment allowance for each of the Secretaries of Department (“SoDs”).

1.5 In 2007, the PAS was expanded with the creation of two additional layers of PAOs, namely, Deputy Directors of Bureau (“DDoBs”) and Political Assistants (“PAs”). In December 2007, the FC approved the cash remuneration for DDoBs and PAs to be pitched at two respective ranges as follows:

- (a) DDoBs: equivalent to 65%, 70% or 75%² of the cash remuneration for a DoB; and
- (b) PAs: equivalent to 35%, 40%, 50% or 55%³ of the cash remuneration for a DoB.

DDoBs and PAS were also eligible for broadly the same benefits as those enjoyed by DoBs, except that they would not be entitled to the use of car and driver. Transport for DDoBs would be provided by relevant policy bureaux/offices from their internal resources.

1.6 So far, two reviews on the remuneration package for PAOs serving in the fourth-term and fifth-term Government had been conducted by the Independent Commission in 2012 and 2016 respectively.

1.7 In the 2012 review, the Independent Commission’s recommendations included adjusting the cash remuneration for PAOs annually in line with the movement of the Consumer Price Index (C) (“CPI(C)”); to increase the cash remuneration for DoBs by 15.3% (equivalent to the cumulative increase in the CPI(C) from 2002 to 2011)⁴; to cap the total cash remuneration of PAs at \$1.2 million per annum or \$100,000 per month, such that it would give the concerned SoD or DoB more flexibility to engage more PAs with a wider range of experience and

² The remuneration range for DDoBs was set at that time to be broadly equivalent to the remuneration of a D4 to D6 civil servant on agreement terms with all allowance and end-of-contract gratuity encashed.

³ The remuneration range for PAs was set at the time to be broadly equivalent to the remuneration of a senior professional to D2 civil servant on agreement terms with all allowances and end-of-contract gratuity encashed.

⁴ The then Government, after consultation with the then CE-Elect’s Office, decided not to pursue the one-off increase in PAOs’ cash remuneration at the FC.

background; to propose the remuneration package of Deputy Secretaries of Department (“DSODs”) (if such posts are to be created); and encashment of unspent annual leave. However, owing to the continued filibustering concerning the re-organisation of the Government Secretariat of the fourth-term Government, the proposals submitted by the Government to the FC could not be put to vote before LegCo’s prorogation in July 2012. As a result, the PAOs’ remuneration package remained unchanged.

1.8 In anticipation of the fifth-term Government assuming office in July 2017, the Independent Commission commenced a review in 2016. The then real value of the pay level of PAOs was considered to have substantially fallen behind inflation as pay levels of PAOs’ remuneration had remained unchanged since 2002 (or 2007 in the case of DDoBs and PAs). In the course of the review, the Independent Commission was of the firm view that an objective and transparent annual adjustment mechanism should be devised.

1.9 The recommendations made by the Independent Commission in 2016 were summarised as follows:

- (a) the remuneration for PAOs should be adjusted annually in line with the movement of the CPI(C);
- (b) the cash remuneration for DoBs should be increased by 12.4%⁵ starting from 1 July 2017, which was equivalent to the cumulative change in CPI(C) from 2012 to 2016, i.e. from \$298,115 to \$335,100 per month (or from \$3,577,380 to \$4,021,200 per annum);
- (c) the differential in cash remuneration between DoBs, SJ, FS and CS should remain at 3.5% for each tier⁶;

⁵ The percentage was adjusted to 12% in February 2017 based on the then latest CPI(C) movements. Please refer to paragraph 1.10(a).

⁶ For reference, the cash remuneration for CE should be pegged at 112.5% of that for CS with effect from 1 July 2007 as approved by FC on 18 November 2005 (See FCR(2005-06)32: <https://www.legco.gov.hk/yr05-06/english/fc/fc/papers/f05-32e.pdf>).

- (d) cash remuneration for DDoBs should be set at 65% to 75% of that for the DoBs⁷;
- (e) cash remuneration by each PA engaged by a SoD or DoB should be capped at 35% of the remuneration of DoBs, i.e. not more than \$1,252,080 per annum or \$104,340 per month. It would be for the SoD or the DoB to decide on the exact level that his/her PA should be paid within the ceiling based on the functional requirements of the job, and how to redeploy any unspent savings to engage other support in order to achieve the objectives of the respective department or bureau in the most cost effective manner; and
- (f) there should be no change to other components of the remuneration package for PAOs.

1.10 The Government accepted the Independent Commission's recommendations in its entirety and secured the approval of FC on 10 February 2017 that:

- (a) with effect from 1 July 2017, cash remuneration for PAOs be adjusted according to the cumulative change in CPI(C) from 2012 to 2016, i.e. increased by 12%; and
- (b) with effect from 2018, cash remuneration for PAOs as approved by the FC of the LegCo be adjusted on an annual basis in accordance with the change in the average annual CPI(C)⁸.

⁷ The Independent Commission recommended in 2012 to peg the cash remuneration of DDoBs at 70% of the DoBs. However, the fourth-term Government continued to adopt the practice of remunerating DDoBs at 65%-75% of a DoB's remuneration as approved by FC in 2002.

⁸ Under the annual adjustment mechanism –

- (a) the cash remuneration for PAOs be adjusted on 1 July every year, with effect from 1 July 2018;
- (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
- (c) the authority to approve the future annual adjustment to the level of cash remuneration for PAOs on the basis of the above mechanism be delegated to the Permanent Secretary for Financial Services and the Treasury.

1.11 As at 19 April 2022, the PAS comprises 43 positions⁹, of which 39 are filled.

Remuneration Package for PAOs

Cash Remuneration

1.12 Following FC's approval in February 2017, the cash remuneration for DoBs was increased by 12% from \$298,115 to \$333,900 per month with effect from 1 July 2017. Besides, the cash remuneration for PAOs has been adjusted annually in line with the movements of CPI(C) from 2018 onwards. Under the annual adjustment mechanism, there have been two adjustments to PAOs' cash remuneration, i.e. 1.9% on 1 July 2018 and 2.3% on 1 July 2019.

1.13 The outbreak of the COVID-19 epidemic has caused significant impact on Hong Kong's economy. As part of the concerted efforts to tide over such challenging times, the Chief Executive ("CE") had decided not to make upward adjustment to the salary for PAOs in 2020 and 2021 notwithstanding the positive change in CPI(C). The current cash remuneration for PAOs has thus been frozen at July 2019 level till 30 June 2022.

1.14 The current cash remuneration level for various tiers of PAOs (i.e. the approved rates with effect from 1 July 2019) as well as the nominal rates (i.e. cash remuneration levels that would have been adopted with effect from 1 July 2021 based on the annual adjustment mechanism) are summarised at **Annex C**.

Other Benefits

1.15 The other components of the remuneration package for PAOs, which are set out in paragraph 1.4 above, remain unchanged.

⁹ The current 43 PAO positions comprise 3 SoDs, 13 DoBs, 1 Director of the CE's Office, 12 DDoBs and 14 PAs.

CHAPTER 2: GENERAL PRINCIPLES AND CONSIDERATIONS

General Principles and Considerations

2.1 During the review process, the Independent Commission has paid due regard to the following general principles and considerations:

- (a) the main objective is to ensure that the overall remuneration package is commensurate with the level of responsibilities of PAOs so as to facilitate recruitment and retention of high caliber talents;
- (b) there is no need to compare with remuneration packages of top executives in the private sector given the inherent differences in the remuneration systems between the private and public sectors. PAOs are motivated primarily by their aspiration in serving the community and the remuneration package is relatively a less important factor in deciding whether to take up the appointment;
- (c) it is also not necessary to conduct a benchmark study against the civil service. The remuneration for PAOs should not be pegged to that of the civil service since the roles and responsibilities of the two are different. However, as a matter of principle, the remuneration of DoBs should not lag behind that for permanent secretaries in the civil service as DoBs are ultimately responsible for the designated policy portfolios and accountable for the performance of the underpinning executive departments;
- (d) the mechanism to remunerate PAOs should be sustainable so that the real value of their remuneration is maintained;
- (e) the remuneration package, including the non-cash components, should be fair to the PAOs having regard to their unique roles and responsibilities; and

- (f) the Independent Commission is not in a position to judge the performance of PAOs, nor would it be appropriate for the Commission to take into account the performance of the government when considering the remuneration level of PAOs.

2.2 The Independent Commission notes that the current cash remuneration for PAOs has been frozen following the CE's decision of making no upward adjustment to the salary for PAOs in 2020 and 2021. The decision for pay freeze is a political decision of the fifth-term Government and should not be taken into account in the Independent Commission's review of the remuneration package for PAOs serving in the sixth term Government.

CHAPTER 3: CASH REMUNERATION OF PAOS

Directors of Bureau

3.1 The cash remuneration for DoBs is the benchmark for determining the levels of cash remuneration for other PAOs. The monthly cash remuneration approved by the LegCo FC in 2017 for DoBs was \$333,900. After two upward adjustments made in accordance with the change in the average annual CPI(C) in 2018 and 2019, the monthly cash remuneration reached the level of \$348,100. Given the CE's decision of making no upward adjustment to the salary of PAOs in 2020 and 2021, the current cash remuneration for DoBs has stayed at July 2019 level.

Consideration

3.2 The Independent Commission considers that the objective of the review is to devise a fair, reasonable and sustainable remuneration system that is commensurate with the responsibilities of the PAOs. In this respect, the Independent Commission is satisfied that the annual adjustment mechanism as recommended in the 2016 review remains an objective, scientific and transparent tool to ensure that the remuneration of PAOs in terms of purchasing power is maintained and adjusted in line with movements of inflation. It has worked well so far and helped avoid having a political debate in LegCo and the community every time the cash remuneration of DoBs are adjusted. It would therefore be prudent to continue with the agreed mechanism for the sake of sustainability.

3.3 The annual adjustment mechanism is also instrumental to ensuring that the remuneration for DoBs would not lag behind that for permanent secretaries in the civil service. DoBs are ultimately responsible for the designated policy portfolios and accountable for the underpinning executive departments and, as a matter of principle, their remuneration should be higher than that of the senior civil servants they are working with.

3.4 In considering the cash remuneration level for DoBs, the Independent Commission has taken into account the following:

- (a) the pay freeze of serving PAOs in 2020 and 2021 should not be taken into account as it is a decision made by the fifth-term Government under the prevailing social, economic and political environment. The pay freeze is also voluntary in nature and is only applicable to PAOs serving in the fifth-term Government; and
- (b) if the system as agreed in the 2016 review is followed, the cash remuneration for PAOs in the sixth-term Government should be adjusted in accordance with the change in the average annual CPI(C) since 1 July 2019. Otherwise, the cash remuneration for PAOs in the sixth-term Government would be lagging behind the cumulative inflation in the past three years.

Recommendation

3.5 Taking all factors into consideration, the Independent Commission recommends that the annual adjustment mechanism as approved by the FC in 2017 should be maintained. The cash remuneration for PAOs serving in the sixth-term Government should be adjusted in accordance with the accumulated movements of CPI(C) until May 2022 notwithstanding the pay freeze in 2020 and 2021. This only serves to restore the original levels of the cash remuneration package as approved by the FC in 2017 and should not be construed as a pay rise. It follows that the cash remuneration for DoBs serving in the sixth-term Government with effect from 1 July 2022 would be calculated on the basis of the nominal cash remuneration for 2021/22 of \$357,150 per month (please refer to **Annex C**) and subject to adjustment based on the change in average annual CPI(C) ending May 2022 under the annual adjustment mechanism.

Pay Differential among SoDs, DoBs and DDoBs

3.6 At present, the differential in cash remuneration between DoBs, SJ, FS and CS remains at 3.5% for each tier, and the cash remuneration for DDoBs is set at 65%, 70% and 75% of that for a DoB.

Consideration and Recommendation

3.7 On the basis that there is no substantial change in the roles and responsibilities of SoDs, DoBs and DDoBs, the Independent Commission recommends that the current pay differential be maintained for the sixth-term HKSARG. Assuming that the cash remuneration for SoDs and DDoBs be adjusted in accordance with the accumulated increase in CPI(C) since 2019, the monthly cash remuneration for SJ, FS, CS with effect from 1 July 2022 would be calculated on the basis of the nominal monthly salary of \$369,650, \$382,600 and \$396,000 respectively, and that for DDoBs would be \$232,150 – \$267,850 (see **Annex C**), and subject to adjustment based on the change in average annual CPI(C) ending May 2022 under the annual adjustment mechanism.

Political Assistants

3.8 At present, the cash remuneration for each PA engaged by a SoD or DoB is capped at 35% of that for a DoB. It would be for the SoD or the DoB to decide on the exact level that his/her PA should be paid within the 35% ceiling based on the functional requirement of the job, and to redeploy any unspent savings to engage other support in order to achieve the objectives of the respective department or bureau in the most cost effective manner.

Consideration and Recommendation

3.9 In view that the existing system has been working well, the Independent Commission recommends that no change should be made. The cash remuneration for PAs serving in the sixth-term Government with effect from 1 July 2022 would be calculated on the basis of the nominal monthly salary of \$125,000 per month (please refer to **Annex C**) and subject to adjustment based on the change in average annual CPI(C) ending May 2022 under the annual adjustment mechanism.

CHAPTER 4: OTHER COMPONENTS OF THE REMUNERATION PACKAGE

Other Remuneration Components

- 4.1 In addition to cash remuneration, the PAOs are eligible for:
- (a) annual leave of 22 working days per annum;
 - (b) medical and dental benefits on the same basis as those provided to civil servants during the term of their employment;
 - (c) Mandatory Provident Fund contribution by the Government;
 - (d) use of car and driver when in Hong Kong at his/her discretion for each of the SoDs and DoBs as well as for the Director of the CE's Office. Departmental transport for DDoBs is provided by relevant policy bureaux/offices from their internal resources; and
 - (e) an official residence with domestic staff and a non-accountable entertainment allowance for each of the SoDs.

Consideration

4.2 The Independent Commission generally considers that the other components of the remuneration package above should continue to be adopted for the PAOs serving in the sixth-term Government. However, some improvements on the annual leave arrangements, and the medical and dental benefits are worthy of further examination. The Independent Commission's considerations and recommendations are elaborated in the following paragraphs.

Annual Leave

4.3 The Independent Commission notes that currently, subject to a maximum accumulation limit of 22 working days, any accumulated leave will be forfeited upon the PAOs leaving office. This is different from the arrangements for employees in statutory bodies, as well as civil servants on new agreement terms.¹⁰

4.4 Having regard to the roles and responsibilities of PAOs, the Independent Commission considers it impracticable for PAOs to take all their accumulated leave in one block as in the case of retiring civil servants before their term of appointment ends. As a reference, for the fourth-term HKSARG, about one-third of the PAOs forfeited more than half of their annual leave entitlement when leaving office, largely because they were unable to take leave during their term of office due to work requirements.

4.5 The Independent Commission notes that many companies in the private sector do not allow their employees to carry forward untaken annual leave owing to the accrued liabilities. Some companies may exercise discretion to allow staff to carry forward some of the untaken annual leave for a short period of time, say until the first quarter of the following year. While PAOs should be encouraged to take leave, Independent Commission recognises that it is difficult for PAOs to take leave during their term in practice.

4.6 The Independent Commission considers that, within the parameters of the stipulated annual leave entitlement of 22 working days, there should be a suitable degree of flexibility to allow PAOs to carry forward part of their untaken annual leave to the following year, and that part of their untaken leave can be encashed upon leaving office. On this, members have made reference to the prevailing annual leave arrangements adopted by some statutory bodies. Notwithstanding the slightly different practices among the statutory bodies, they would allow employees to carry forward the untaken annual leave subject to the

¹⁰ Officers under new agreement terms are allowed to accumulate up to at least one year of their annual leave entitlement, and encash their leave balance accrued up to and including the end date of the appointment.

accumulation limit that ranges from one and half years to two years of leave entitlement, and encashment of leave balance accrued up to and including the end date of the appointment.

4.7 Modelling on the leave arrangements of statutory bodies and taking into account the importance of work-life-balance, the Independent Commission considers it fair and reasonable to increase the accumulation limit of leave balance up to one and a half years of leave entitlement (i.e. 33 working days) and to allow encashment of untaken leave of not more than half of the annual leave entitlement (i.e. 11 working days) upon the PAOs leaving office.

Medical and Dental Benefits

4.8 The Independent Commission considers that the level of medical and dental benefits that different layers of PAOs should be entitled to require careful examination and justification. An in-depth study should be carried out prior to the review to be conducted by the Independent Commission before its current term of appointment ends on 31 March 2025.

Recommendation

4.9 The Independent Commission recommends that, with effect from the sixth-term HKSARG, the maximum accumulation limit of annual leave for PAOs be increased from 22 working days to 33 working days and not more than half of their annual leave entitlement, i.e. 11 working days, can be encashed upon PAOs' resignation, termination of contract or at the end of term of the contract.¹¹ Any leave balance that exceeds the limit of 11 working days will be forfeited.

¹¹ Encashment of leave balance that is less than 11 working days will be calculated on a pro-rata basis.

4.10 The Independent Commission also recommends no change at this stage to the rest of the non-cash components of the remuneration package, but undertakes to conduct an in-depth study on the medical and dental benefits before its current term of appointment ends on 31 March 2025.

CHAPTER 5: SUMMARY OF RECOMMENDATIONS

5.1 To sum up, the Independent Commission recommends:

- (a) the remuneration for PAOs should continue to be adjusted annually in line with the movement of CPI(C);
- (b) with effect from 1 July 2022, cash remuneration for DoBs be restored to the level of \$357,150 per month subject to annual adjustment based on the change in the average annual CPI(C) for the year ending May 2022;
- (c) the differential in cash remuneration between DoBs, SJ, FS and CS remains at 3.5% for each tier;
- (d) the cash remuneration for DDoBs continues to be set at 65% to 75% of that for a DoB;
- (e) the cash remuneration for each PA engaged by a SoD or DoB continues to be capped at 35% of that for a DoB;
- (f) the maximum accumulation limit of annual leave for PAOs be increased from 22 working days to 33 working days;
- (g) encashment of untaken annual leave be capped at half of the annual leave entitlement (i.e. 11 working days) upon the PAOs' resignation, termination of contract or at the end of term of the contract; and
- (h) no change to the rest of the non-cash components of the remuneration package for PAOs at this stage.

5.2 Regarding the level of medical and dental benefits for different tiers of PAOs, the Independent Commission recommends that there should be an in-depth study and discussion before its current term of appointment ends on 31 March 2025.

**Independent Commission on Remuneration for
Members of the Executive Council and the Legislature, and
Officials under the Political Appointment System of the HKSAR**

(Appointed by the Chief Executive)

Terms of Reference

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 Government 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 Government may refer to the Independent Commission from time to time.

Membership of the Independent Commission

Chairman

Mr. Carlson TONG, G.B.S., J.P.

Members

Mr. Kevin LAM Sze-cay

Ms. Winnie TAM Wan-chi, S.B.S., S.C., J.P.

Mr. Philip TSAI Wing-chung, B.B.S., J.P.

Professor Alexander WAI Ping-kong

Ms. Winnie WONG Chi-shun, J.P.

**Remuneration Packages for Politically Appointed Officials (PAOs)
Serving in the Fifth-Term HKSAR Government (2017 to 2022)**

(1) Cash remuneration

Rank	Position (Note 3)	Actual Monthly (Annual) Cash Remuneration w.e.f 1 July 2019 (HK\$)	Nominal Monthly (Annual) Cash Remuneration w.e.f 1 July 2021 (Note 4) (HK\$)	Pay differential
Top Tier				
Secretaries of Department (SoDs) (Note 1)	Chief Secretary for Administration (CS) (1)	385,950 (4,631,400)	396,000 (4,752,000)	3.5% above FS
	Financial Secretary (FS) (1)	372,900 (4,474,800)	382,600 (4,591,200)	3.5% above SJ
	Secretary for Justice (SJ) (1)	360,300 (4,323,600)	369,650 (4,435,800)	3.5% above DoB
Directors of Bureau (DoBs) (Note 1) and Director of the Chief Executive's Office (D/CEO) (Note 2)	Secretaries (13) and D/CEO (1)	348,100 (4,177,200)	357,150 (4,285,800)	-
Second Tier				
Deputy Directors of Bureau (DDoBs)	Under Secretaries (12)	226,250 - 261,100 (2,715,000 - 3,133,200)	232,150 - 267,850 (2,785,800 - 3,214,200)	65%, 70% or 75% of DoB
Third Tier				
Political Assistants	Political Assistants to DoBs, CS and FS (14)	121,850 (1,462,200)	125,000 (1,500,000)	Not more than 35% of DoB

Notes:

1. CS, FS, SJ and DoBs are "Principal Officials".
2. The terms of employment of D/CEO should be aligned with those of a DoB as approved by the Legislative Council Finance Committee in June 2007.
3. Figures in brackets denotes the number of positions.
4. The nominal cash remuneration is based on the actual cash remuneration as at 1 July 2019 adjusted by the change in the average CPI(C) for the year ended May 2020 and May 2021, i.e. 2.5% and 0.1% respectively.

(2) Other benefits

In addition to cash remuneration, PAOs are also eligible for –

- (a) annual leave of 22 working days per annum;
- (b) medical and dental benefits on the same basis as those provide to civil servants during the term of their employment;
- (c) Mandatory Provident Fund contribution by the Government;
- (d) use of car and driver when in Hong Kong at his/her discretion for each of the SoDs and DoBs as well as for D/CEO. Departmental transport for DDoBs is provided by relevant policy bureaux/offices from their internal resources; and
- (e) an official residence with domestic staff and a non-accountable entertainment allowance for each of the SoDs.