

(Unclassified version with commercially sensitive or confidential information and Members' names removed)

S.C. 17/2009 (Revised)

**Revised Minutes of the 33rd Meeting of the
Staffing Committee held at 2:30p.m.
on Tuesday, 14 July 2009 in Conference Room 1,
2nd floor, HKPC Building, 78 Tat Chee Avenue, Yau Yat Chuen, Kowloon**

Present : Chairman - Prof. Lee Wing-bun
Members - Ms. Cheung Lai-ha
Mr. Choi Kam-wah
Mr. Davey Chung
Dr. Fan Cheuk-hung
Mr. Wilson Fung
Mr. Poon Siu-ping, MH
Dr. Elizabeth Shing, BBS, JP
Dr. Carrie Willis, SBS, JP

In Attendance: HKPC Chairman - Mr. Clement Chen, BBS, JP

In Attendance from HKPC:

Dr. Stephen Lee	Director, Technology Development
Mr. Edmund Sung	Director, Business Consulting
Mr. M.P. Au	General Manager, Human Resources and Administration
Mr. Jonathan Ho	General Manager, Corporate Communications
Mr. Alfonso Tam	Principal Consultant, Corporate Services

Welcome

The Chairman welcomed Mr. Clement Chen, Council Chairman, who attended today's meeting.

Confirmation of Minutes (S.C. 10/2009 Revised)

The revised Minutes of the 32nd Meeting held on 26 March 2009 had been circulated to Members and there were no further requests for amendments. The Revised Minutes were taken as read, confirmed and signed by the Chairman.

I. Final Report by Hay Group on Pay Scheme Review for the Senior Executives and Extension of Variable Pay to Directorate Staff (S.C. 11/2009)

1. said that the Staffing Committee agreed at its 29th meeting that the Management should conduct an overall review of the competitiveness of the compensation packages of HKPC's Directorate staff, comprising the Executive Director, the Branch Directors and the General Managers. The Hay Group (Hay) was subsequently commissioned for the review and had completed the study and submitted the final report to HKPC in June 2009.

pointed out that Hay had conducted the study on the basis of a database drawn up from benchmarking HKPC's pay scheme with those of 21 organizations (including NGOs, universities, consultancy firms, and utility companies) and briefed Members on the major recommendations of Hay, as follows:

- (a) despite the different job evaluation results for the two Branch Director positions, for easy administration, HKPC should adopt one pay scale for the two Branch Directors;
- (b) the current pay package components should be restructured to streamline the fixed pay portion and eliminate those non-performance driven pay components, such as housing and education allowances;
- (c) the existing cash/ benefits allowances should be streamlined by converting them to a lump sum cash allowance;
- (d) a new pay scheme based on the total cash principle, comprising base pay, total allowance and variable pay should be adopted in view of the relatively commercial nature of HKPC's activities; and
- (e) an additional one-off incentive could be considered for those executives who agreed to migrate from their existing pay package to the new pay scheme.

2. said that according to Hay, HKPC could either adopt a one-off or two-stage approach to migrate to the new streamlined and performance based pay scheme. While a one-off migration was not without its attractions, the Management recommended a two-stage approach as it would be easier to get the executive buy-in with the introduction of the variable pay in the 1st stage without affecting their existing entitlement to fringe benefits. The two-stage approach would also allow the Management more time to consult staff and to validate the feasibility of the modernization of fringe benefits across the board to bring out the full merits of the changes in the pay system.

3. In reply to _____, _____ said that the Management was reasonably optimistic of positive response of the Directorate grade staff to the two-stage approach which would allow the complicated issue of benefits modernization to be examined separately without the pressure of time under a one-off migration. Indeed, all the Directorate grade staff had already opted for the Performance Pay System (PPS) when it was introduced in 2007. They had however agreed to be excluded from variable pay so as not to create any misunderstanding that the PPS was created to benefit senior staff.

4. In response to Members' comments, _____ said that as the focus of Hay's recommendations was on the structure of the pay scheme for the Directorate grade staff, rather than changes to HKPC's existing pay scale, the impact of the financial tsunami on suppressing the level of pay in the job market was not relevant to the present review. In this connection, the difference identified by Hay in the competitiveness of the respective compensation packages for the two Branch Directors would also not create any material impact as it was recommended that HKPC should continue to adopt one pay scale for all the Branch Directors.

5. Supplementing _____, _____ said that variable pay was a one-off discretionary award without recurrent implications. More importantly, the proposed extension of variable pay to the Directorate grade staff was essential to completing HKPC's performance based pay scheme under the PPS and thereby ensuring a useful degree of internal relativity in HKPC's pay administration.

6. _____ reserved the Government's position on the matter and said that under the present economic situation, as a matter of principle, the Government would not support any pay review that would result in an increase in the pay package of HKPC staff.

7. After discussion, Members, except _____, agreed to endorse for Council's approval a proposal for HKPC to adopt a 2-stage approach to implement the recommendations of the Hay Report, first by extending variable pay to the Directorate grade staff in 2010, followed by an overall review and modernization of HKPC's non-performance based fringe benefits across the board in 2011. In this connection, the eight members agreed that their endorsement was given after taking into account the following considerations:

- (a) all the Directorate grade staff had already joined the Performance Pay Scheme (PPS) in 2007 but had agreed to be excluded from variable

pay so as not to create the misunderstanding that the PPS was created to benefit senior executives; hence the extension of variable pay to the Directorate staff was actually a delayed provision of what was a central pay component of the PPS;

- (b) variable pay was a one off discretionary pay without any recurrent implication. The award or otherwise of variable pay would depend on the financial situation of HKPC in a given year and therefore eligibility for variable pay was not equivalent to guaranteed annual award;
- (c) the 2-stage approach would be easier to get buy-in from the Directorate grade staff without affecting their existing entitlement to fringe benefits; and
- (d) the Management at this point was unable to comment on staff reaction to the modernization of fringe benefits, therefore the 2-stage approach would also allow the Management more time to validate the feasibility of the modernization of fringe benefits across the board to bring out the full merits of the changes in the pay system before deciding on the next steps.

II. Civil Service Pay Reduction and Pay Review for HKPC Staff (S.C. 12/2009)

8. Invited by _____ to report, _____ said that the pay adjustment for 187 non-PPS staff would follow the proposed Civil Service pay reduction of 5.38% for top and senior level staff and a pay freeze for the middle and general level staff. As for the 365 staff members under the PPS, they were entitled to pay adjustments reflecting the market trend by reference to four pay trend surveys available in the market, as well as the pay trend award of the Civil Service. The same mechanism adopted last year was applied for calculating the “weighted average of projected salary adjustment” for 2009 based on the actual pay adjustment data in the surveys. After taking account of these considerations, the proposed pay adjustments for staff under the PPS would be a reduction of 1.38% and 1.37% for the top and senior level staff respectively, and an increase of 1.19% and 1.12% for the middle and general level staff respectively.

9. In reply to _____, _____ said that it was legal requirement for HKPC to obtain written consent to salary reduction from each affected staff as an employer could not unilaterally change an employment contract without the explicit consent of staff. In this connection, the Management would explain the rationale for the salary reduction to staff and seek their understanding. _____ explained that, in

accordance with the HKPC Ordinance, no HKPC staff should be paid a salary other than those on HKPC's salary scale as approved by the Chief Executive. Therefore, in the event of staff refusal to accept salary reduction, the termination of employer-employee relationship would become unavoidable.

10. Noting that the pay trend survey conducted by the HKPMA only covered the period July 2007 to June 2008, which was before the impact of the financial tsunami, _____ wondered if the HKPMA's findings should be considered in the same manner as the others in the 2009 pay adjustment exercise. In response, _____ said that the adopted mechanism for pay adjustment calculation, for which the Joint Consultative Committee (JCC) was consulted, should not be changed arbitrarily as it was difficult to defend if the mechanism was to be changed every year to suit circumstances. Therefore, the need to take account of other factors, political or otherwise, should not fall within the present mechanism for pay adjustment review by the Management. As pay review was a rolling exercise, the effects of different time coverage in the four market surveys in a given year would be neutralized over time.

11. _____ shared the views of _____ and said that arbitrary changes to the adopted pay adjustment mechanism was undesirable and should be avoided. _____ pointed out that despite the different time coverage in the market surveys, the proposed pay adjustment for PPS staff was not out of touch with the market considering that some public organizations, like the MTRC, was offering pay rise for all staff.

_____ and _____ echoed the views of _____. _____ supported the proposal on grounds that it was based on HKPC's established pay adjustment mechanism, but advised that public reaction, particularly from the media, should be carefully managed.

12. _____ reserved the Government's position on the proposed salary adjustment for staff under the PPS and said that, under the present economic situation, the Government would not support any pay increase in the 2009 pay adjustment exercise.

13. All Members, except _____, endorsed for Council's approval the Management's proposal for pay adjustment for staff under the PPS as laid out in paragraphs 8 to 11 of the paper. In this connection, Members further advised that:

- (a) the rationale for salary adjustment should be explained clearly to staff members;
- (b) in the event of staff refusal to accept a salary reduction offer, HKPC

the introduction of the corporate initiative from 2010 onwards. In order to understand more about staff members' views, a survey on staff views was also conducted in March 2009 with the assistance of JCC employee representatives. At the 25th JCC meeting held on 23 April 2009, employee representatives reported the survey results collected which showed that 74.6% of staff responding to the survey supported the proposed Corporate Leave.

17. In reply to _____, _____ said that allegation by the HKPC Employees Association (HKPCEA) that staff were forced to clear accumulated annual leave was unfounded. If staff were forced to clear accumulated leave, there would not be any need for the Management to consider additional measures towards meeting the target set by the Audit Committee. The HKPCEA's claim that the majority of staff did not support the proposed corporate leave initiative was also not supported by facts as no open survey was conducted by them.

18. In response to the remarks of _____ and _____, _____ agreed with them that, as the proposed Corporate Leave would be implemented on a voluntary basis, there was a possibility that it might not significantly reduce accumulated leave. But it was still a worthwhile initiative which would help address the issue and reduce its magnitude.

19. _____ said that it was important for the Management to ensure staff understanding of the voluntary nature of the initiative and that they should not feel compelled to participate if it did not fit their own leave plans.

20. _____ and _____ supported the initiative which was a voluntary scheme and that only a maximum of 4 days in a year would be designated as corporate leave days. _____ also opined that it was unlikely, and indeed unnecessary, for the initiative alone to achieve the target set by the Audit Committee. The Management should continue to encourage staff to orderly reduce their accumulated leave days through leave planning with their supervisors.

21. After discussion, Members endorsed for Council's approval the introduction of a Corporate Leave Scheme from 2010 onwards.

IV. Progress Report on AON and PwC Studies (S.C. 14/2009)

22. Invited by _____ to report, _____ briefed Members of the progress of follow-up

actions on the recommendations of PwC and AON studies on HR Management Policies and Practices, as well as the recommendations from an internal HKPC HR Task Force, an Independent Enquiry into Anonymous Allegations (IEAA) and the ICAC.

23. Members noted that:

- (a) for the PwC study, 34 recommendations were adopted in 3 new Standard Practices and 14 revised Standard Practices. The remaining 17 recommendations of the PwC Study would be adopted and they were in the process of being incorporated into some new and revised Standard Practices;
- (b) all 3 recommendations of the AON Study were adopted in two Standard Practices;
- (c) all 6 recommendations by ICAC and IEAA on Recruitment and Code of Conduct were adopted in two Standard Practices;
- (d) 45 of the 55 recommendations by an internal HR Task Force were adopted;
- (e) out of a total of 121 major recommendations of the PwC and AON studies, 15 (about 12%) were not adopted after the Management's careful consideration as they were in conflict with the long-established practices or the Employment Ordinance, or would not enhance current procedures or practices, or were simply not feasible at all; and
- (f) the Management had taken the initiative to fine-tune the Standard Practices on a continual basis and introduced 9 new Standard Practices to beef up the HR policies for addressing different needs.

V. Staffing Position of HKPC (S.C. 15/2009)

24. Members noted that as at 31 May 2009, 528 staff members were employed on the approved staff establishment of 593. Separately, another 83 temporary/project staff were retained to meet changing market needs. The turnover rate in April-May 2009 was 1.68%, compared to 12.81% in 2008/09 and about 56% of staff quoted "remuneration or career advancement" as their reasons for departure.

VI. Any Other Business

(C) Declaration of Investment by the Executive Director

29. Members noted that a new Standard Practice P31/2 (Code of Conduct – Conflict of Interest) was issued on 14 May 2009. It was stipulated that staff members holding a Tier I post (the Executive Director and the Branch Directors) were required to declare on appointment and annually thereafter the investments in and outside Hong Kong on shareholding of 1% or more, direct or indirect interest in any company or undertaking, and the occupation of his/ her spouse. Between the annual declarations, they were also required to report any single investment transaction equivalent to or exceeding HK\$200,000 within seven days of the transaction. Under this Standard Practice, the declaration by ED would be reviewed by the Council.

30. In order to simplify the procedure, Members agreed with the advice of the Council Chairman and Chairmen of the Standing Committees that the declaration of investment by the Executive Director would be reviewed by the Council Chairman and the Deputy Chairman and filed with the Council Secretariat. Members could however make request for review whenever necessary.

VII. Date and Venue of Next Meeting

36. It was agreed that the date and venue of the next meeting be left open.

37. There being no other business, the Chairman thanked Members for their attendance and the meeting was adjourned at 5:15p.m.