

ITEM FOR FINANCE COMMITTEE

HEAD 120 - PENSIONS

Subhead 015 Public and judicial service pension benefits and compensation

Subhead 700 General other non-recurrent

Item 002 Compensatory Payments under the Voluntary Retirement Scheme

Item 003 Ex-gratia Payments to early retirees who are Model Scale I officers on Old Pension Scheme in grades designated for the Voluntary Retirement Scheme

Members are invited to -

- (a) approve an increase in the approved commitment of Subhead 700 General other non-recurrent Item 002, from \$1,100 million by \$1,680 million to \$2,780 million, for making compensatory payments to officers retiring under the Voluntary Retirement Scheme;
- (b) approve an increase in the approved commitment of Subhead 700 General other non-recurrent Item 003, from \$2.4 million by \$7.6 million to \$10 million, for making ex-gratia payments to Model Scale I officers on the Old Pension Scheme holding non-established offices in the specified grades who meet selection criteria for the Voluntary Retirement Scheme and are approved to retire early; and
- (c) note an additional pension expenditure in 2000-01 as a result of the implementation of the Voluntary Retirement Scheme.

/PROBLEM

PROBLEM

The non-recurrent commitments of \$1,100 million and \$2.4 million approved by Members at the meeting on 9 June 2000 are not sufficient for compensatory payments to officers retiring under the Voluntary Retirement (VR) Scheme and for ex-gratia payments to certain Model Scale I (MOD I) officers in designated grades of the VR Scheme who are approved to retire early.

PROPOSAL

2. The Secretary for the Civil Service proposes to increase the approved non-recurrent commitments of Compensatory Payments under the VR Scheme by \$1,680 million, and of the Ex-gratia Payments to early retirees who are MOD I officers on Old Pension Scheme in grades designated for the VR Scheme by \$7.6 million.

JUSTIFICATION

3. On 9 June 2000, after discussing FCR(2000-01)27 which set out the justification for and details of the VR Scheme Members -

- (a) approved creation of a non-recurrent commitment of \$1,100 million for compensatory payments to officers retiring under the VR Scheme;
- (b) approved creation of a non-recurrent commitment of \$2.4 million for ex-gratia payments to MOD I officers on the Old Pension Scheme holding non-established offices in the specified grades who meet selection criteria for the VR Scheme and are approved to retire early; and
- (c) noted the additional pension expenditure in 2000-01 as a result of the implementation of the VR Scheme.

4. On that occasion, we explained that the actual cost of the VR payments would depend on the number of officers leaving under the VR Scheme, their current pay and their years of service. We noted that since there was no pre-determined number of retirees and the Scheme was strictly voluntary, it was not possible to make an accurate estimation of the number of applications for VR. We sought, and Members approved, the financial commitment of \$1,100 million, which assumed applications from 5% of all staff in the designated grades. We noted that depending on staff response we might seek Members' approval to raise the financial commitments.

/Response

Response to the Scheme

5. By the closing date of 3 October 2000, about 15% (or about 11 000) of the 70 000 staff eligible for the Scheme had submitted applications. They comprise 6 800 applications from common grades staff, 3 800 from general grades staff, and 400 from departmental grades staff. A breakdown of the VR applications by grades is at Enclosure 1. Some 250 applications have been subsequently withdrawn.

Encl. 1

Approval of applications

6. Following the principle that approval of VR applications is subject to exigencies of service and that the provision and quality of service to the public will not be adversely affected by the departure of VR-takers, Heads of Department and Heads of Grade have recommended to approve most of the VR applications with the following exceptions -

- (a) 249 applications from Works Supervisors (Civil) from Highways Department, Drainage Services Department and Civil Engineering Department; and Electrical Inspectors, non-vehicle streams Workmen, Artisans, Works Supervisors and Mechanical Inspectors from Electrical and Mechanical Services Department. These applications will not be approved as there is an operational need to retain these staff because there is no surplus staff of these grades in other departments available to replace the VR-takers, and it is not feasible to replace these staff through redeployment or in-service appointment due to the high qualifications and experience required of these grades. The four departments have briefed their staff on the reasons for rejecting their applications; and
- (b) the Food and Environmental Hygiene Department (FEHD) expects that on the basis of current plans, it will be able to approve around two-thirds of the applications, i.e. about 2 100 applications. It cannot at this stage approve the remaining one-third, i.e. about 1 200 applications, without further study on re-engineering of operations, replacement by other modes of service delivery, and the ability of the private sector to take up contracts. It proposes that the financial commitment required for all the VR applications be included so that the outstanding applications may be approved as and when operational circumstances permit. FEHD has briefed its staff who raised no objection to this arrangement.

/Release

Release arrangements

7. Departments will start releasing their staff in 2001. They will ensure that the departure of VR-takers ties in with their plans for redeployment, re-engineering of operations or contracting out programmes so as not to disrupt their operation, or services to the public or overburden existing staff. A rough estimate, according to the departments' current manpower plans, is that about 8 000, 2 000 and 500 staff will be released in 2001, 2002 and 2003 respectively. The length of time required has taken into account the fact that a few departments (e.g. FEHD, Leisure and Cultural Services Department (LCSD), Official Languages Agency and Government Land Transport Agency) will need a longer period of time to release staff because of the number of VR-takers involved and the need to manage staff's departure to ensure that the departments' operation is not adversely affected. Upon the departure of VR-takers, the concerned departments will delete the same numbers of posts, though not necessarily in the same grade or rank of the VR-takers.

Surplus staff problem

8. Given the positive response to the VR Scheme, we envisage that the surplus staff problem in the majority of the VR grades will largely be resolved or become manageable. A few grades (e.g. Data Processor and Telephone Operator) are still likely to have a surplus staff problem. To solve the problem, the departments concerned will adjust their downsizing programmes, retrain and redeploy the staff to take up other duties. In addition, we shall reconvene the central clearing house mechanism to help redeploy surplus staff who cannot be absorbed within their own departments.

Impact on government services

9. The VR Scheme will not adversely affect the operation of the Government or the delivery of services to the public because VR applications will only be approved and staff released -

- (a) when their services are no longer required. We expect that about 2 000 posts vacated by VR-takers are already surplus or obsolescent (including about 400 Clerical Officer posts, 200 Clerical Assistant posts, 200 Workman posts, 110 Artisan posts, 70 Typist posts, 60 Ward Attendant posts, 55 Midwife posts and 20 Cook posts); or
- (b) when suitable replacements can be arranged from elsewhere in the Civil Service. We expect that about 2 300 posts will be replaced through redeployment, posting and in-service appointment. These posts are in the Workman, Artisan, Property Attendant, Clerical Officer, Clerical Assistant, Personal Secretary and Confidential Assistant ranks; or

/(c)

- (c) when alternative modes of service delivery such as outsourcing are in place. We expect that about 5 000 posts will be replaced through this means. For example, FEHD intends to contract out its street cleansing, waste collection, mechanical gully cleansing, conservancy and cemeteries and crematories service which involve about 2 000 posts of Workman, Special Driver, Motor Driver and Ganger. LCSD intends to contract out horticulture maintenance and cleansing in parks and playgrounds, provision of services in indoor games halls and plant nursery production which involve about 750 posts of Workman and Artisan. Hong Kong Police Force intends to contract out its cleansing, translation and catering services which involve about 300 posts of Workman, Police Translator and Cook. Water Supplies Department intends to contract out its general engineering work in mechanical and electrical workshop and other services involving about 160 posts of Artisan and Workman.

To ensure that the quality of services outsourced is maintained, departments will specify in the contracts the requirements in service quality and output, number of employees required to deliver the service and the qualifications, experience and skills of these employees. In parallel, departments will set up a monitoring mechanism to monitor the performance of contractors and will consider terminating contracts in cases of unsatisfactory performance. Training to departmental staff on contract management will be provided.

Impact on staff remaining in the service

10. It is vitally important to maintain the morale of the majority of staff of the VR designated grades, who will remain in the service. Concerned departments will carefully plan their staff redeployment arrangements to dovetail with the departure of VR-takers to ensure that the remaining staff are not over-burdened. Heads of Department and Heads of Grade will redeploy surplus general and common grades staff to fill vacancies in their departments or other departments, matching grades and streams, and as far as possible, take into account the preferences of staff.

11. To help staff adjust to changes in the work place, we will provide them with necessary skills to adapt to the new working environment and to advance further in their career. Apart from vocational and general skill training, we will organise seminars, exhibitions and workshops on change management to help them handle changes positively and be more resilient. In addition, we will provide training to staff managers and supervisors of the VR grades to help them manage and handle staff in job transition. These training programmes will start progressively early next year to tie in with the departure date of VR-takers and the redeployment plans of departments.

12. The departments are fully aware of the need to retain an adequate career structure for staff remaining in service. Where operationally justified, lower rank posts may be deleted to retain promotion posts of the departed VR-takers in order to retain promotion opportunities for staff. In general, with the departure of officers of longer service and higher seniority, staff who remain in the service will have a better promotion prospect overall.

Staff Consultation

13. Heads of Department and Heads of Grade have been briefing their staff on details of the VR applications, the criteria for determining approval, their redeployment and retraining plans for staff remaining in the service. Staff have raised concerns relating to workload, training and promotion prospects, all of which are addressed in paragraphs 10 to 12 above. Departments will continue to brief and discuss with staff when more detailed arrangements become available.

FINANCIAL IMPLICATIONS

14. The VR Scheme will incur compensation cost in the form of the one-off VR payment and pension expenditure. On the basis of an average length of service of 20 years, the VR compensatory payment and the ex-gratia payment for MOD I officers on the Old Pension Scheme who are aged 45 or above are estimated at \$2,780 million and \$10 million respectively. As two non-recurrent commitments of \$1,100 million and \$2.4 million under Head 120 Pensions Subhead 700 General other non-recurrent have already been approved by Members in June 2000, we need to increase the non-recurrent commitments by \$1,680 million and \$7.6 million respectively.

15. The actual cashflow requirements under the two financial commitments depend on the timing of the release of the VR-takers and the length of their pre-retirement leave. On the basis of the release plan set out in paragraph 7 above, we estimate the cashflow requirements to be as follows -

| | 2000-01 (\$ million) | 2001-02 (\$ million) | 2002-03 (\$ million) | 2003-04 (\$ million) |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| VR payment under Subhead 700 Item 002 | 176 | 1,553 | 827 | 224 |
| Ex-gratia payment under Subhead 700 Item 003 | 2 | 8 | - | - |

16. In addition, implementation of the VR Scheme will give rise to pension expenditure estimated at \$316 million in 2000-01, comprising \$313 million in the commuted pension gratuities and \$3 million in monthly pension payments. Pension expenditure is a statutory charge on the General Revenue as provided for under the pensions legislation. We will monitor the pension expenditure in the course of the year and, if necessary, seek Members' approval for supplementary provision in 2000-01 under Head 120 Pensions Subhead 015 Public and judicial service pension benefits and compensation. For pension expenditure from 2001-02 onwards, sufficient provision will be included in the draft Estimates.

17. Without the VR Scheme, we would have to carry the surplus or potential surplus staff until their normal retirement. The implementation of the Scheme will bring about long term savings to the Government through the deletion of posts from the civil service establishment. In addition, the Scheme will enable Government to introduce more cost-effective initiatives in the delivery of public services.

18. The savings in expenditure in the longer term as a result of deletion of posts following the departure of VR-takers is estimated at around \$1,600 million. After allowing for the costs of alternative modes of service delivery, it is estimated that we can achieve a net savings of \$977 million per annum. A cost-benefit analysis of the Scheme is at Enclosure 2.

Encl. 2

BACKGROUND INFORMATION

19. Staff surplus is identified in 59 grades where demand for their services is declining because of changing technology and work practices, or where more cost-effective modes of service delivery are available. In anticipation of a growing number of surplus staff in these grades and in order to create room for taking forward efficiency enhancement initiatives in the Government, the Executive Council ADVISED and the Chief Executive ORDERED the introduction of a VR Scheme as a compensation scheme for the purposes of section 6(1)(h) of the Pensions Ordinance (Chapter 89) and section 11(1)(i) of the Pension Benefits Ordinance (Chapter 99) in May 2000. As provided for under the relevant legislation, the VR Scheme applies to officers specified in the 59 grades and provides for the payment of compensation and pension benefits to officers on their retirement.

20. Members approved vide FCR(2000-01)27 the creation of non-recurrent commitments on 9 June 2000 for the introduction of the VR Scheme to enable existing staff in 59 designated grades to retire from the Civil Service voluntarily. The retirement and compensation package provided for eligible officers retiring under the Scheme includes the pension benefits for which the

/officer

officer would be eligible on the date of voluntary retirement, in accordance with the applicable pensions legislation, save for the requirement of whether he has attained the minimum age of retirement and whether or not he has completed the minimum length of service, and a lump sum payment (VR payment) calculated on the basis of one month's salary for every two complete years of service of the officer plus nine months' salary up to a maximum amount of 20 months' salary of the officer. This VR payment is also subject to the ceiling that the amount of the VR payment, when added to the commuted value of the pension benefits for which the officer would be eligible upon voluntary retirement under the VR Scheme, will not exceed the commuted value of the pension benefits for which the officer would be eligible at his normal retirement age plus six months' salary.

21. MOD I officers aged over 45 on the Old Pension Scheme holding non-established posts in the designated grades for the VR Scheme who meet the same selection criteria for the VR Scheme may retire on similar terms with the provision of ex-gratia payments equivalent to the VR compensatory payments.

22. We briefed Legislative Council Panel on Public Service on 30 October and 20 November 2000 on the details of the VR applications and our plans to maintain the provision and quality of our services to the public.

Civil Service Bureau
November 2000

Number of VR Applications By VR Designated Grades

| Grade | Number of Applications |
|-------------------------------|------------------------|
| Workman | 3 817 |
| Clerical Officer | 1 929 |
| Artisan | 852 |
| Foreman | 641 |
| Clerical Assistant | 562 |
| Ward Attendant | 390 |
| Works Supervisor | 320 |
| Motor Driver | 282 |
| Special Driver | 268 |
| Personal Secretary | 212 |
| Senior Artisan | 142 |
| Typist | 142 |
| Ganger | 141 |
| Cook | 140 |
| Property Attendant | 124 |
| Police Translator | 109 |
| Office Assistant | 108 |
| Chainman | 101 |
| Supplies Supervisor | 92 |
| Chinese Language Officer | 77 |
| Confidential Assistant | 72 |
| Midwife | 55 |
| Laboratory Attendant | 53 |
| Land Inspector | 51 |
| Calligraphist | 46 |
| Launch Master | 38 |
| Printing Technician | 38 |
| Data Processor | 35 |
| Workshop Attendant | 27 |
| Darkroom Technician | 19 |
| Supplies Attendant | 19 |
| Mechanical Inspector | 16 |
| Court Reporter | 14 |
| Supervisor of Typing Services | 13 |
| Photographer | 11 |
| Education Assistant | 11 |
| Electrical Inspector | 10 |
| Traffic Assistant | 10 |
| Photoprinter | 8 |
| Inoculator | 8 |

| Grade | Number of Applications |
|---|-------------------------------|
| Chauffeur | 7 |
| Transport Services Officer | 7 |
| Proof Reader | 7 |
| Head Property Attendant | 6 |
| Timekeeper | 6 |
| Dental Technician | 6 |
| Sailor | 6 |
| Telephone Operator | 5 |
| Radiographic Technician | 5 |
| Launch Mechanic | 5 |
| Ship Inspector | 4 |
| Building Supervisor | 3 |
| Police Communications Assistant | 3 |
| Printing Officer | 3 |
| Projectionist | 2 |
| Car Park Attendant II | 1 |
| Lift Operator | 1 |
| Police Communications Computer Operator | 1 |
| Car Park Attendant I | 0 |
| Total | 11 081 |

Remarks

The above shows the number of VR applications excluding withdrawn cases received by bureaux and departments before the close of the application period on 3 October 2000.

Number of VR Applications Received by Departments

| Department | VR Application |
|--|-----------------------|
| Food and Environmental Hygiene Department | 3 366 |
| Leisure and Cultural Services Department | 1 235 |
| Department of Health | 1 165 |
| Hong Kong Police Force | 652 |
| Water Supplies Department | 593 |
| Electrical and Mechanical Services Department | 423 |
| Housing Department | 327 |
| Education Department | 255 |
| Lands Department | 234 |
| Social Welfare Department | 189 |
| Agriculture, Fisheries and Conservation Department | 173 |
| Government Secretariat | 160 |
| Marine Department | 156 |
| Immigration Department | 137 |
| Judiciary | 129 |
| Inland Revenue Department | 123 |
| Highways Department | 118 |
| Home Affairs Department | 109 |
| Transport Department | 106 |
| Fire Services Department | 99 |
| Labour Department | 96 |
| Printing Department | 83 |
| Trade and Industry Department | 78 |
| Census and Statistics Department | 73 |
| Government Supplies Department | 72 |
| Drainage Services Department | 71 |
| Civil Engineering Department | 64 |
| Customs and Excise Department | 63 |
| Land Registry | 60 |
| Treasury | 57 |
| Department of Justice | 54 |
| Architectural Services Department | 53 |
| Correctional Services Department | 52 |
| Environmental Protection Department | 41 |
| Buildings Department | 32 |
| Rating and Valuation Department | 30 |
| Official Languages Agency | 27 |
| Legal Aid Department | 24 |
| Companies Registry | 22 |
| Planning Department | 22 |
| Radio Television Hong Kong | 21 |
| Government Land Transport Agency | 19 |

| Department | VR Application |
|---|-----------------------|
| Student Financial Assistance Agency | 18 |
| Television and Entertainment Licensing Authority | 18 |
| Territory Development Department | 17 |
| Government Property Agency | 16 |
| Innovation and Technology Commission | 15 |
| Hong Kong Observatory | 14 |
| Information Services Department | 14 |
| Civil Aviation Department | 13 |
| Official Receiver's Office | 11 |
| Post Office | 10 |
| Civil Service Training and Development Institute | 7 |
| Hong Kong Monetary Authority | 7 |
| Information Technology Services Department | 7 |
| Audit Commission | 6 |
| Intellectual Property Department | 6 |
| Civil Aid Service | 5 |
| Office of the Telecommunications Authority | 5 |
| Office of The Ombudsman | 5 |
| Registration and Electoral Office | 5 |
| Government Flying Service | 4 |
| Secretariat for Standing Commission on Civil Service Salaries and Conditions of Service | 4 |
| Public Service Commission | 3 |
| Government Laboratory | 2 |
| Auxiliary Medical Service | 1 |
| Independent Commission Against Corruption | 1 |
| Management Services Agency | 1 |
| Secretariat for Independent Police Complaints Council | 1 |
| Secretariat for Standing Committee on Disciplined Services Salaries and Conditions of Service | 1 |
| University Grants Committee Secretariat | 1 |
| Total | 11 081 |

Remarks

The above shows the number of VR applications excluding withdrawn cases received by bureaux/departments before the close of the application period on 3 October 2000.

Cost-benefit Analysis of the VR Scheme
(\$ million)

| | <u>2000-01</u> | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> | <u>2004-05</u> |
|---|----------------|----------------|----------------|----------------|----------------|
| Costs | | | | | |
| VR Payment | 176 | 1,553 | 827 | 224 | - |
| Ex-gratia Payment for MOD I staff | 2 | 8 | - | - | - |
| Recurrent costs for alternative modes of service delivery | 39 | 386 | 571 | 622 | 622 |
| Total | 217 | 1,947 | 1,398 | 846 | 622 |
| Savings | | | | | |
| Savings in salary | 101 | 989 | 1,461 | 1,599 | 1,599 |
| Net savings | -116 | -958 | 63 | 753 | 977 |
| Net cumulative savings | -116 | -1,074 | -1,011 | -258 | 719 |