

Legislative Council Panel on Public Service

Meeting on 20 January 2003

**Public Consultation on the Phase One Final Report of the
Task Force on Review of Civil Service Pay Policy and System**

PURPOSE

This paper briefs Members on the outcome of the public consultation exercise on the Phase One Final Report of the Task Force on Review of Civil Service Pay Policy and System (the Task Force).

BACKGROUND

2. The Administration announced on 18 December 2001 the decision to carry out a comprehensive review of the civil service pay policy and system with the assistance of the Standing Commission on Civil Service Salaries and Conditions of Service, the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Standing Committee on Directorate Salaries and Conditions of Service. The three advisory bodies have subsequently set up a task force to take forward the review.

3. The review is being conducted in two phases. Under phase one, the Task Force has completed an analytical study on recent developments in civil service pay administration in five selected countries, namely Australia, Canada, New Zealand, Singapore and the United Kingdom, with a view to identifying the best practices that are of relevance to Hong Kong. The Task Force published on 25 April 2002 an interim report of the phase one review for public consultation, which ended on 30 June 2002.

4. Taking account of overseas experience, the particular circumstances in Hong Kong as well as the feedback received during the consultation exercise on the Interim Report of the Phase One Study, the Task Force has in its Phase One Final Report suggested priority areas for more detailed study in the short, medium and long term as follows –

- For the short term, the Administration should devise a practical framework and methodology for conducting a pay level survey and review the pay trend survey methodology. Meanwhile, it should consider the appropriate interim measures for the annual civil service pay adjustment exercise.
- For the medium term, the Administration should consider improvements to the staff appraisal system in support of the introduction of performance pay and flexible pay ranges to civil servants. The new arrangements should preferably be introduced at the directorate level initially, with rollout to other levels at a later stage. Consolidation of job-related allowances should also be adopted as a target, as part of a move towards a “clean wage” policy in the long term.
- For the long term, decentralization of pay administration should be adopted as a target. Care should be exercised in determining the scope and pace of implementation. A “clean wage” policy with benefits incorporated into base pay should be adopted as a target.

The Executive Summary of the Task Force’s Phase One Final Report is at Annex A.

5. To gauge the views of civil servants and other interested parties on the Task Force’s recommendations, the Administration had launched an eight-week public consultation on the Task Force’s Phase One Final Report until 15 November 2002.

6. The Administration has received a total of 135 submissions during the consultation exercise. A list of the respondents that have submitted written comments is at Annex B. The main points made in the submissions are summarized at Annex C and highlighted in paragraphs 7 to 22 below.

Views on the Task Force’s recommendations for the short term

Review of pay trend survey methodology

7. A slight majority of civil service staff unions/associations which have submitted comments support a review of the pay trend survey methodology. It is generally considered that the Administration should seek improvements to

the existing system and avoid radical changes. Some however express reservations about the proposal to include small and medium firms in the survey field. Some staff unions/associations from the disciplined services consider that the pay levels for disciplined services should not be determined solely on the basis of internal relativity with civilian staff and that the special job factors of the disciplined services should be duly taken into account. The majority of the departmental management who have responded agree that the existing pay trend survey methodology should be reviewed with a view to making necessary improvements to ensure accurate reflection of the pay trend in the private sector.

8. The non-civil service organizations generally support a review of the pay trend survey methodology. Some cast doubt on the reliability of the existing methodology for various reasons, such as only big companies are included in the survey field and the survey does not take into account the effect of downsizing and retrenchment in the surveyed companies on their payroll cost.

Conduct of pay level surveys

9. The majority of the civil service staff unions/associations which have submitted comments consider it inappropriate to conduct a pay level survey in the midst of the current economic downturn as the survey results may be biased and unfair to civil servants. Some comment that the pay level survey may be intended to pave way for a civil service pay reduction. There are also concerns about practical problems which may arise from a pay comparison with the private sector because of the different job nature between the civil service and the private sector. Those civil service staff unions/associations in support of the proposal generally consider that there should be full consultation with staff in devising the framework and methodology for the pay level survey. On the other hand, the departmental management respondents generally support the conduct of a pay level survey in view of the long lapse of time since the last survey. It is generally considered that there should be adequate staff consultation in working out a transparent, fair and practicable methodology for the survey. Some disciplined services departments opine that the pay for disciplined services staff merits special consideration in view of the special nature of their duties.

10. The non-civil service organizations have diverse views on the conduct of a pay level survey. In general, the business bodies support but the labour unions object.

Views on the Task Force's recommendations for the medium term

Introduction of performance pay and flexible pay ranges

11. The majority of civil service staff unions/associations which have submitted comments have reservations about the proposal of introducing performance pay and flexible pay ranges within the civil service as they consider it difficult to draw up objective parameters for performance measurement. They are also concerned that the proposal may lead to unfairness and affect team spirit and staff morale. Some, however, support the introduction of performance pay at the directorate level on a trial basis.

12. The departmental management respondents generally consider that the proposed introduction of performance pay and flexible pay range would be conducive to fostering a performance-driven culture. Most of them consider that the development of a fair, reliable and credible performance appraisal system would be a critical factor for the successful implementation of these initiatives. In this connection, they support the Task Force's proposal of conducting an extensive and critical assessment of the existing performance appraisal system in order to pave way for the introduction of performance pay in the long run. Meanwhile, there are concerns about practical difficulties in setting the yardstick for performance measurement, possible inconsistencies in the assessment standard among departments, and additional administrative work on handling staff complaints and disputes on pay matters. The general view was that if performance pay and flexible pay ranges are to be pursued, they should be introduced on a trial basis among directorate officers first. The staff unions/associations and departmental management in the disciplined services who have submitted comments generally consider that performance pay is unsuitable in the disciplined services because it may adversely affect the team spirit among staff, which is important for their operation.

13. The non-civil service organizations generally support the introduction of performance pay. They consider that the design and operation of the performance appraisal system in the civil service should be reviewed to cater

for this purpose. On the other hand, non-civil service labour unions express reservations about the proposal. They consider that civil servants are mostly involved in teamwork and it is difficult to measure the performance output of individuals.

Consolidation of job-related allowances into base pay (JRA)

14. The civil service staff unions/associations which have responded are generally opposed to the proposal of incorporating job-related allowances (JRA) into the base pay. They consider that the proposal would be unfair to those who are required to perform additional duties and may therefore give rise to difficulties in deploying staff to perform such duties. Some also comment that civil service pay may be overrated as a result, hence giving the wrong impression that civil servants are highly paid. On the other hand, the departmental management respondents generally support the proposal, which they consider would save costs and reduce administrative work. Both the staff unions/associations and departmental management in the disciplined services consider that given the special nature of their work, flexibility should be allowed for the retention/consolidation of JRAs for disciplined services staff.

15. Some non-civil service bodies, mainly business bodies, support to the proposal, which they believe would bring the civil service pay system more in line with the private sector and would help reduce administrative costs in the civil service. Some non civil-service labour unions which have submitted comments are opposed to the proposal, which they consider would increase the level of civil service pay and give a wrong impression to the public that civil servants are overpaid.

Views on the Task Force's recommendations for the long term

Consolidation of all fringe benefits into the base pay in pursuit of a "clean wage" policy

16. The civil service staff unions/associations which have responded generally do not support the proposal, which they consider would overrate civil service pay, increase the Government's expenses on pensions and the tax burden on civil servants, and complicate the civil service pay structure. Some point out that fringe benefits are important factors for attracting and retaining

talents. The proposal may, therefore, diminish the attraction of the civil service to prospective job-seekers. On the other hand, the departmental management respondents generally support the proposal which they believe would help to save costs and reduce administrative work. However, some share similar concerns as expressed by the staff unions about the implications of the proposal on pension expenses, the tax burden on staff and the civil service pay structure.

17. As for the non-civil service organizations which have responded, the business bodies generally support the proposal while the labour unions express reservations about it.

Decentralization of pay administration

18. The majority of civil service staff unions/associations which have submitted comments are opposed to the proposal on the ground that it may give rise to a pay disparity for similar jobs in different departments, barriers to cross-posting and staff disputes. They are also concerned that the proposal may give rise to unhealthy competition for resources among departments and undermine inter-departmental cooperation. The views of the departmental management respondents are divisive. The general view is that while the proposal may allow more flexibility for departments to meet their operational needs, a very cautious approach should be adopted in view of the complex issues involved and the far-reaching implications. There are also concerns about possible duplication of efforts in pay administration and an increase in administrative costs at the departmental level. Some departmental management respondents share similar concerns as expressed by the staff unions/associations. Some of those departmental management respondents who are more receptive to the proposal consider that adequate training and guidance should be given to ensure that departments have the necessary human resources management expertise to handle pay matters.

19. As for the non-civil service organizations which have submitted comments, some support the proposal in order to empower departmental managers with human resources management responsibilities while others consider that it is not necessary to decentralize the pay administration function to individual departments as all civil servants are employed by the government as the single employer.

Other related proposals - simplification of the grade structure and departmentalization of common/general grades

20. The civil service staff unions/associations which have submitted comments are generally positive towards the proposal of simplification of the grade structure although some express concerns about the possible impact on promotion prospects. The departmental management respondents generally see merit in the proposed simplification of grade structure in terms of efficiency improvement. Some of them, however, express concerns about the possible implications on promotion prospects and staff morale. Most of the non-civil service organizations which have responded do not have specific views on this proposal.

21. On the proposal to departmentalize the common/general grades, the views of the civil service staff unions/associations and the departmental management which have made submissions are mixed. Members of the general grades are opposed to the proposal, which they consider would affect their exposure, career development and promotion prospects, particularly for staff in small departments. Those in support of the proposal consider that the proposal would help to cultivate a sense of belonging to the parent departments and enable the parent departments retain expertise. While some departmental management respondents support the proposal, others have reservations and opine that the existing arrangement which allow inter-departmental posting could help to broaden the exposure of their staff and facilitate transfer and exchange of human resources management expertise among departments.

22. Most of the non-civil service staff organizations which have responded do not have any particular views on the proposal.

THE WAY FORWARD

23. The Task Force's recommendations on the future direction of the development of our civil service pay system are fairly wide-ranging and have far-reaching implications. In view of the many complex issues involved, we consider it appropriate to focus, in the first instance, on the suggested priority areas identified by the Task Force for detailed study in the short term. This also complements our ongoing discussion with staff representatives on the handling of the 2003 civil service pay adjustment and related issues. In this

connection, we are exploring with staff representatives, on the basis of the existing mechanism, an improved civil service pay adjustment mechanism which encompasses the conduct of periodic pay level surveys and annual pay trend surveys based on an improved methodology as well as a practical means for implementing both upward and downward pay adjustments. In view of the urgency of resolving these matters, we aim to decide on the way forward on this in early 2003 following consultation with staff and having regard to the views of the public received during the consultation on the Task Force's Phase One Final Report.

Civil Service Bureau
January 2003

Extracts from the Phase One Final Report of
the Task Force on Review of Civil Service Pay Policy and System

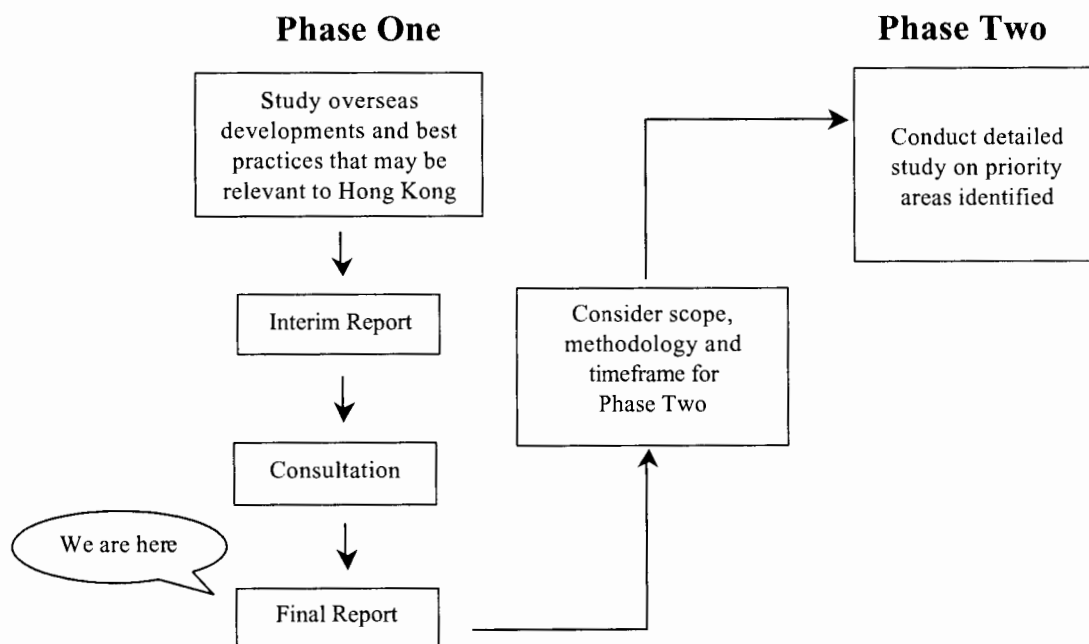
EXECUTIVE SUMMARY

Paragraph

Introduction

1. This is the Phase One Final Report of the Task Force on the Review of Civil Service Pay Policy and System. The review is being conducted in two phases, as shown schematically in Figure 1.

Figure 1: Roadmap of the Review



2. We have arrived at our recommendations after careful consideration of:
 - a consultancy study on the latest developments in civil service pay administration in five selected countries (Australia, Canada, New Zealand, Singapore and the United Kingdom);

- feedback from public consultation on our Interim Report published on 25 April 2002; and
 - the historical context and development of the civil service pay policy and system in Hong Kong.
3. Although the above provide important reference in our consideration, we have not resigned ourselves to simply following overseas practices or the drift of public opinion. We have discussed, indeed debated, the issues thoroughly among ourselves before setting out our conclusions in this report. While we wish to point out that changes cannot be rushed, we also consider it important to take proactive steps towards our vision of the modern civil service pay system.

Priority Areas

4. We would like to suggest that –

In the short term:

9.14

- priority should be given to devising a practical framework and methodology for conducting a pay level survey, and to reviewing the pay trend survey methodology; and
- the Administration should consider the appropriate interim measures to be adopted for the annual civil service pay adjustment exercise pending the outcome of the above review.

In the medium term:

9.15

- an extensive and critical assessment should be made regarding the staff appraisal system to see what changes are needed in order to pave the way for introducing elements of performance pay (including the systematic

linking of achieved performance to the award of annual increments) and flexible pay ranges to civil servants, preferably the senior tier (director level) initially;

- if such initiatives at the senior level prove to be feasible and conducive to achieving better performance, this would inspire confidence in change and provide useful experience for further application of the new arrangements within the civil service; and
- consolidation of job-related allowances should be adopted as a target, as part of a move towards a “clean wage” policy in the long run.

In the long term:

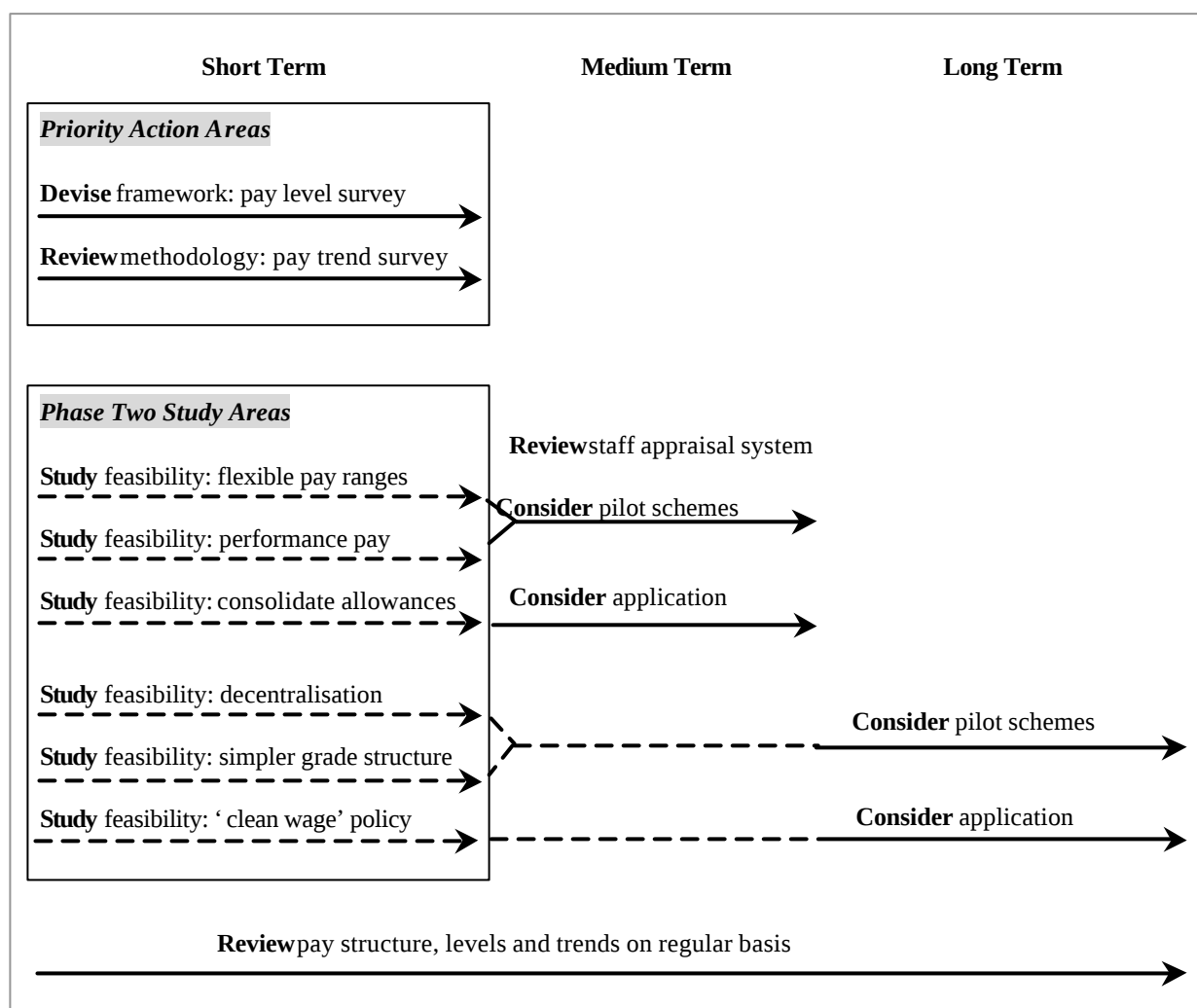
9.16

- decentralisation of pay administration, as part of the devolution of human resource management, should be adopted as a target, after detailed studies are conducted to determine the scope of implementation at different stages, and to see whether the challenges associated with each stage can be overcome;
- the ultimate objective is to allow departments greater freedom to manage pay arrangements to suit their needs; and
- a “clean wage” policy with benefits incorporated into base pay should be adopted as a target.

5. In studying the above areas, particular attention should be paid to the fact that the areas are all inter-related.

(See Figure 2 and paragraph 17)

Figure 2: Priority Areas in Pay Administration



Legend : → To consider action in the indicated timeframe
 --> To commence study in the indicated timeframe

Paragraph

Background

6. On 25 April 2002, we published for public consultation: 1.6
- our Phase One Interim Report, and
 - findings of a consultancy study on the latest developments in civil service administration in the five selected countries.

	Paragraph
7. During the consultation period, which lasted until 30 June 2002, a series of forums and meetings were held with various interested parties. We also received 337 written representations.	1.7 – 1.13

Review of Development in Hong Kong

The Need for Review

8. In commissioning this review, the Administration's objective is to modernise the pay policy/system in Hong Kong, having regard to the best practices elsewhere, with a view to:	2.1 – 2.4
- making it simpler and easier to administer; and - building in more flexibility to facilitate matching of jobs, talents and pay.	

Changes Cannot be Rushed

9. We agree that the time is ripe for a comprehensive review, but wish to state that our recommendations at this stage:	2.5 – 2.6
- are in the main conceptual; and - will go no further than to identify specific areas to be explored further in Phase Two.	
10. In deciding to embark on any reform after relevant issues have been fully considered in Phase Two of the review, the Administration should bear in mind the objective of modernising the civil service and that reform should be implemented:	2.7
- gradually and progressively; and	

- with stakeholders' buy-in secured throughout the process.

Historical Context and Changing Times

- | | | |
|-----|--|----------------|
| 11. | Historically the civil service in Hong Kong was modelled on the British system, evolving gradually over the years and providing Hong Kong with a stable, clean and efficient civil service. | 2.8 –
2.9 |
| 12. | The analytical study of developments in the five countries (all with roots directly or indirectly in the British civil service model) shows that governments are finding it necessary to modernise their civil service to cope with changes in the socio-economic and political circumstances. | 2.10 |
| 13. | With sustained economic growth from the 1970s to the 1990s in Hong Kong, the civil service pay adjustment system has relied heavily on a formula-based mechanism premised upon broad comparability with the private sector. Affordability had not been a prominent issue until recent years. However, the economic downturn since 1997 has brought the issue of fiscal control to the forefront. | 2.11,
2.14 |
| 14. | <p>Since the 1990s, the rigid network of internal relativities and proliferation of grades and ranks in the civil service are seen to have fallen out of step with changing circumstances. Reasons for this include:</p> <ul style="list-style-type: none"> - the many changes which the private sector has undergone in organisational and human resource management; and - the higher public expectation in terms of civil service efficiency, value for money, etc. | 2.12 –
2.15 |

Our Vision

15. Having looked critically at the development of the system in Hong Kong, we are now in a position to paint a vision of what we think the system should be like in the long term, say, after a decade or more. 3.1
16. In this long-term vision, the system should be – 3.2 – 3.8
 - (a) able to offer sufficient remuneration to recruit, retain and motivate staff of a suitable calibre to provide the public with an efficient and effective service;
 - (b) regarded as fair both by civil servants and by the public which they serve;
 - (c) able to complement, support and facilitate the effective and efficient operation of the civil service, and to allow it to change and evolve over time to keep up with socio-economic changes, yet stable enough to assure civil servants of their reasonable expectations;
 - (d) simple enough so that an inordinate amount of resources is not required to administer it, yet flexible enough to allow managers to provide incentives as appropriate;
 - (e) able to distinguish between performers and non-performers, and allow managers to act accordingly;
 - (f) able to empower managers to manage staff resources effectively and flexibly, taking care of specific needs of individual departments; and
 - (g) reviewed regularly to take account of the latest developments in international best practices which may be relevant to Hong Kong.

Specific Areas

17. The Administration has asked us to look into five specific areas in Phase One of this review. The following are the priority issues which we have identified in each of these areas.

Pay Policies, Pay System and Pay Structure

- Instead of making drastic, abrupt changes to the current policy and system, a programme of progressive improvements should be introduced to address the latest management needs and different stakeholders' expectations. 4.10
- The principle of broad comparability with the private sector should be maintained. 4.23
- Regular reviews of pay structure, levels and trends should be conducted to establish reasonable rates of pay that are: 4.23
 - accepted as fair by both civil servants and the general public; and
 - sufficient to recruit, retain and motivate the right staff for delivering quality service to the public.
- Affordability should be a very important, but not over-riding, factor in determining pay adjustments. 4.32
- Other factors should continue to be considered in determining pay adjustments. Such factors include: 4.32
 - fair comparison with the private sector;
 - staff morale;

- cost of living adjustment; and
 - performance of the economy.
-
- There are merits in considering the consolidation of job-related allowances into base pay in the medium term, and a “clean wage” policy with benefits consolidated as a long-term target. However, given the unique operational need of the disciplined services, some flexibility should be allowed for the retention/consolidation of allowances to meet specific requirements. 4.41 – 4.42
 - Separate arrangements on pay and human resource management should continue to apply to senior civil servants (i.e. directorate officers). Consideration should be given to modifying such arrangements in line with best practices in the surveyed countries to better reflect responsibility/accountability, risk/award factors and performance. 4.51 – 4.52
 - Pay levels in the disciplined services should continue to be determined with reference to internal relativity with the rest of the civil service. 4.62
 - For pay administration purposes, we do not see a need to revise the existing list of departments which are grouped under the disciplined services. Management of the disciplined services should continue to streamline front-line services and explore room for civilianising supporting services. 4.65

Replacing Fixed Pay Scales with Pay Ranges

	Paragraph
- A system of pay ranges, if properly designed and implemented, can bring benefits to performance management, especially for the senior staff. The feasibility of implementing such a system should be explored in Phase Two.	5.19, 5.21
- After a satisfactory performance appraisal system has been designed and fully tested, consideration should be given to introducing pay ranges to senior civil servants at the directorate level as a pilot scheme.	5.22
- The disciplined services warrant separate consideration. After assessing the results of pilot schemes, further consideration may be given to whether and how a system of pay ranges may be extended to the disciplined services.	5.25

Pay Adjustment System and Mechanism

- Criticism of the existing annual pay <i>trend</i> survey does not address the fundamental problem of perceived pay disparity between the civil service and the private sector. The problem lies in the absence of a pay <i>level</i> comparison, which should be the foundation of the pay determination mechanism.	6.17 – 6.18
- A practical framework and methodology of regular pay <i>level</i> surveys should, therefore, be established and applied as soon as possible.	6.21
- In the meantime, there are also a number of issues which should be addressed in respect of the complementary pay <i>trend</i> survey as it is currently conducted. These issues include:	6.22 – 6.29
• survey sample – size and economic distribution;	

- effects of company downsizing or restructuring; and
- other technical matters such as increment cost deduction, etc.

- A closer look should also be taken in Phase Two as regards whether the growing overseas trend of moving away from formula-based approaches in pay determination has any useful application to Hong Kong. 6.31

Introducing Performance-based Rewards

- The concept of linking pay more closely with performance is supported in principle. Nevertheless, there are issues regarding the efficacy of performance-related pay in practice which require further study. 7.18, 7.20, 7.22
- Apart from the performance bonus type of reward, the systematic linking of achieved performance to the award of annual increments also merits further study in Phase Two. 7.22
- A more detailed study should be conducted in Phase Two on the feasibility of applying performance pay to senior civil servants at the directorate level in selected departments which conduct tradable businesses (e.g. “trading fund” departments). 7.23
- As in the case of introducing pay ranges, a radical look should first be taken at the staff appraisal system in terms of its design and operation, with a view to ensuring reliable performance measurement. 7.25
- The disciplined services warrant separate consideration. After assessing the results of pilot schemes, further 7.28

consideration may be given as regards whether and how performance pay may be extended to the disciplined services.

Simplification and Decentralisation of Pay Administration

- The issue of decentralisation is complex, and there is the need to tread very carefully on this area of study. 8.18
- Decentralising pay administration can contribute towards better-run departments/agencies, more motivated and accountable staff, as well as improved delivery of service. 8.20
- However, there are legitimate concerns, e.g. fragmentation of the civil service, inconsistency in pay arrangements across departments, barriers to cross-posting, etc., which should be addressed. 8.20
- Decentralisation of pay administration should be adopted as a longer-term target. 8.22
- The following steps should be taken in Phase Two of the review as regards decentralisation: 8.24 – 8.27
 - explore with stakeholders to convince them that, with obstacles removed and necessary assistance given, a decentralised pay system can empower them to run their departments better;
 - examine the relationship between decentralisation and other aspects of needed reform; and
 - consider the possibility of engaging staff bodies in designing a decentralised system.
- The following steps should be taken in the next stage: 8.28 –

- consider obtaining stakeholders’ ‘buy-in’ as regards decentralisation of pay administration; and
- consider providing support to management through training, injection of resources, outside expert assistance, etc.

- Simplification of grade structure should also be examined in Phase Two. However, the issue should be treated carefully and the following should be examined closely: 8.32 – 8.33

- scope for simplification;
- effects on productivity and staff morale;
- feasibility of implementing delayering together with pay ranges and performance pay;
- benefits of departmentalising common and general grades against maintaining flexibility in staff deployment; and
- need for regular job evaluation.

- Senior civil servants at the directorate level should continue to be managed centrally for pay purposes. 8.34

- Further consideration should be given, in the light of the operational needs of the disciplined services, as regards whether there are benefits in decentralising pay administration for this group of departments. 8.35

Conclusion

18. We have two points to add in concluding this report:

	Paragraph
- We agree with the Consultant’s observation on the importance of “complementary reforms” outside the pay arena. These include areas such as the broader delegation of human resource and financial management responsibilities, and the introduction of robust and credible systems of performance measurement and management.	9.11
- Changing of mindset, both for management and staff, is crucial before ‘buy-ins’ can take place. Stakeholders should be widely consulted so as to build up consensus for reform.	9.12
19. The priority areas that we have identified for the short, medium and long term are set out in paragraph 4 of this Executive Summary.	9.14 – 9.17
20. We also recommend that the Administration should make this report public, with a view to encouraging wide discussion of its contents and recommendations.	9.18

Written submissions received during the consultation period

(I) Bureaux and Departments (32)

Architectural Services Department
Census and Statistics Department
Correctional Services Department
Customs and Excise Department
Department of Health
Drainage Services Department
Efficiency Unit
Environmental Protection Department
Fire Services Department
Food and Environmental Hygiene Department
Government Flying Service
Government Supplies Department
Home Affairs Department
Hong Kong Observatory
Hong Kong Police Force
Hongkong Post
Housing Department
Immigration Department
Secretariat for Independent Police Complaints Council
Innovation and Technology Commission
Judiciary Administration
Land Registry
Legal Aid Department
Legal Aid Services Council (civil service staff)
Marine Department
Official Languages Agency
Planning Department
Registration and Electoral Office
Social Welfare Department
Trade and Industry Department
Transport Department
Treasury

(II) Staff Associations/Unions (48)

Association of Government Calligraphists
Association of Government Technical and Survey Officers
Association of Hong Kong Nursing Staff
Association of Liaison Officers, Home Affairs Department
Association of Local Engineers of Electrical and Mechanical Services Department
Association of Trade Controls Officers, Customs and Excise Department
Disciplined Services Consultative Council (Staff Side)
General Grades Civil Servants General Union
Government Chinese Language Officers Association
Government Clerical Officers General Union
Government Disciplined Services General Union
Government Electrical and Mechanical Services Department Staff Union
Government Electrical and Mechanical Works Supervisors, Craftsmen and
Workmen Association
Government Employees Solidarity Union
Government Flying Service Aircraft Technicians Union
Government Model Scale 1 Staff General Union
Government Senior Clerical Officers Association
Government Statistical Officers Association
Hong Kong Chinese Civil Servants' Association
Hong Kong Chinese Civil Servants' Association – Clerical Officer Branch
Hong Kong Chinese Civil Servants' Association – Customs Officer Grade Branch
Hong Kong Chinese Civil Servants' Association – Environmental Protection
Inspectors' Branch
Hong Kong Chinese Civil Servants' Association – Taxation Officers' Branch
Hong Kong Clerical Grades Civil Servants General Union
Hong Kong Correctional Services Department Assistant Officers General
Association
Hong Kong Customs and Excise Staff General Association
Hong Kong Customs Officers Union
Hong Kong Federation of Civil Service Union
Hong Kong Fire Services Control Staff's Union
Hong Kong Fire Services Department Ambulancemen's Union
Hong Kong Fire Services Department Ambulance Officers Association
Hong Kong Fire Services Department Staffs General Association
Hong Kong Fire Services Officers Association

Hong Kong Food and Environmental Hygiene Department Employees Association
Hong Kong Marine Department Local Professional Officers' Association
Hong Kong Police Force Civilian Officers General Association
Hong Kong Postal Workers Union/Hong Kong Post Office Senior Postman Union
(joint submission)
International Association of Transport Officers
Joint Organization of Union – Hong Kong
Model Scale 1 Staff Consultative Council (Staff Side)
Overseas Inspectors' Association
Public Services Employees General Union
Senior Non-Expatriate Officers Association
Superintendents' Association
The Association of Customs and Excise Service Officers
The Government Local Civil Engineers Association
Union of Hong Kong Post Office Employees
Union of Non-Teaching Staff of the Education Department

(III) Other Organizations (7)

Citizens Party
Employers' Federation of Hong Kong
Federation of Hong Kong Industries
Hong Kong Confederation of Trade Unions
Hong Kong Democratic Foundation
The Chinese General Chamber of Commerce
The Federation of Hong Kong and Kowloon Labour Unions

(IV) Civil Servants (34)

34 submissions from individual civil servants and the staff sides of departmental consultative committees.

(V) Members of the Public (14)

14 submissions were received from members of the public.

**Public Consultation on the Phase One Final Report of the
Task Force on Review of Civil Service Pay Policy and System**

Summary of main points raised in the written submissions

I. Views on the Task Force's recommendations for the short term

Conduct of pay level surveys

(a) Central staff consultative councils and major service-wide staff unions

For those who support the conduct of pay level surveys

- The principles and methodology for the survey should be worked out in full consultation with staff; an independent body comprising staff representatives and other relevant parties should be set up for this purpose.
- The unique job nature of the disciplined services should be taken into account; do not agree that the pay levels for disciplined services staff should be determined solely on the basis of internal relativity with civilian staff.

For those who have reservations about the conduct of pay level surveys in the short term

- Pay level survey is a very complicated exercise involving a host of controversial and difficult issues; the many changes recently taking place within the civil service such as re-organization and restructuring have brought instability to the civil service and this might affect the conduct of a pay level survey at this juncture.
- Should first define the requirements on the civil service in the present day circumstances as well as the underlying principles for the civil service pay policy and system; should also examine ways to improve the existing pay adjustment mechanism including the pay trend survey methodology and consider necessary improvements to the existing disciplinary mechanism for civil servants.

- Not appropriate to conduct a pay level survey in the midst of the present economic downturn as the results would be unfair to civil servants; the survey should be carried out at a time when the Administration is not under such enormous political and financial pressure.
- There is a suggestion that a pay level survey should be embarked on within a time-frame of two to four years following full consultation with staff on the survey framework and methodology. Another suggestion is to commence the survey six to nine months later in order to allow time for an economic recovery and hence facilitate a survey outcome that is fairer to civil servants.
- Disapprove of any intention to using the results of the pay level survey as a pretext for reducing civil service pay.

(b) Other civil service staff unions/civil servants

For those who support the conduct of pay level surveys

- There should be full consultation with staff on the framework and methodology for the survey.
- Should be cautious about the timing of such a survey.
- The principle of maintaining broad comparability with the private sector should be maintained; affordability should be an important but not an overriding factor in determining civil service pay.
- Concerned about the course of action to be taken if the survey results indicate that civil service pay is very much higher than the private sector pay.
- Should observe the Basic Law in applying the results of the survey.
- The survey results should not affect the pay and conditions of service of serving civil servants.

For those who do not support the conduct of pay level surveys in the short term

- Do not support the conduct of a pay level survey as the survey may be intended to pave way for a civil service pay reduction.
- Not appropriate to conduct a pay level survey before formulating a clear direction for the future development of the civil service pay policy.
- Inappropriate to conduct a pay level survey during an economic downturn as the survey results may be biased; should conduct the survey in six to nine months to allow time for an economic recovery.
- Concerned about the practical difficulties in devising an appropriate methodology for pay comparison with the private sector because of the differences in job nature between the civil service and the private sector.
- Concerned about the application of the results of the survey in civil service pay adjustment, especially if the survey reveals any pay disparity between the civil service and the private sector.
- The inclusion of small and medium sized companies in the survey field may not provide reliable data.
- Inappropriate to conduct a comprehensive pay level survey as the provisions under the Basic Law may limit the extent to which the survey results may be applied in adjusting civil service pay.

(c) Departmental management

- Support the conduct of a pay level survey in view of the long lapse of time since the last survey.
- Support the policy of maintaining broad comparability with the private sector, but the inherent differences between the civil service and the private sector in terms of job nature and working environment should be taken into account in making pay comparisons; direct job-to-job comparison may not be effective and other means for comparison should be explored; the methodology should be considered fair by both civil servants and the public.

- There should be adequate staff consultation in working out a transparent, fair and practicable framework and methodology.
- Some departmental management opine that pay for disciplined services staff merits special consideration in view of the special nature of their duties; a view is expressed that if a pay level survey were to be conducted, a separate one should be conducted for the Police with an independent methodology.
- On the timing of the pay level survey, some have reservations about conducting the survey during the current economic downturn as the results may not be truly indicative. Some others envisage difficulty in securing a consensus with staff at this juncture on the conduct of the survey.
- Some express concern about the application of the survey results in adjusting civil service pay.

(d) Non-civil service organizations and members of the public

For those who support the conduct of pay level surveys

- There is a widening disparity between civil service pay and private sector pay. Some consider that actions should be taken to reduce civil service pay in view of the serious fiscal deficit problem.
- Some doubt whether the annual pay trend survey can truly reflect the pay movements in the private sector. A comprehensive pay level survey should be conducted quickly to objectively compare the pay levels of similar jobs between the public sector and the private sector.
- The mechanism for determining and adjusting civil service pay should include a pay level survey to make a comparison with private sector pay. There is a comment that the results of such a survey should be for reference rather than serving as a rigid basis for determining or adjusting civil service pay.
- Support the regular conduct of pay level comparisons with the private sector and agree that this should be the foundation of the mechanism for determining civil service pay.

- Some urge the Administration to carry out a pay level survey within a year and to undertake to remove any anomalies in civil service pay if the pay level survey results so indicate.
- There is a suggestion that before proceeding with the survey, should first review the work processes and the organization structure of departments and then ascertain the types of work that should be performed by civil servants and the relevant job requirements.
- All relevant factors (e.g. work nature, promotion prospects) should be taken into account in comparing civil service pay and private sector pay.

For those who do not support the conduct of pay level surveys in the short term

- Some do not support the conduct of a pay level survey during the current economic downturn as the results might be used as a pretext for a civil service pay reduction. There is a suggestion that the survey should be conducted in 2004 so as to allow the management and staff more time for necessary preparatory work and that the survey should be conducted every seven years thereafter.

Review of the pay trend survey methodology

(a) Central staff consultative councils and major service-wide staff unions

- Should seek to improve the existing methodology in consultation with staff rather than designing an entirely new system from scratch.
- The survey field should continue to be confined to companies with 100 or more employees to ensure the reliability of the survey results.
- The survey field should have a mix of companies by economic sector that is more reflective of the overall distribution of the economically active population of Hong Kong.
- Some consider that the annual pay trend survey should continue based on the existing methodology until a new methodology is in place.

(b) Other civil service staff unions and civil servants

- Should improve on the existing methodology and avoid making radical changes.
- May consider increasing the number of companies to be included in the survey field.
- Should maintain the existing methodology; should not include small and medium sized firms in the survey field.

(c) Departmental management

- The existing methodology should be further improved in order to more accurately reflect market trends in pay movements.
- Agree that certain aspects of the existing methodology (e.g. the survey field, the effect of downsizing on the pay levels of the remaining staff, etc.) should be further reviewed and improved.
- The improved methodology should be able to effectively track both the upward and downward pay adjustments in the private sector.
- While seeking improvements to the survey field, should maintain the principle of making comparison with good and steady employers in the private sector.
- The annual pay trend survey should continue. But the survey results should not be the determining factor in civil service pay adjustment; they should be taken into account alongside other relevant consideration factors.
- There is a comment that the existing methodology of the annual pay trend survey should be replaced because it involves a lot of manpower but fails to reflect accurately the market trends.
- There is a suggestion that civil service pay should comprise two components, including a “permanent element” which would be subject to adjustment in accordance with the changes in the cost of living, and a “non-permanent element” which would be subject to adjustment in

accordance with the economic performance of Hong Kong.

(d) Non-civil service organizations and members of the public

- Some express reservations on the methodology of the pay trend survey (e.g. only relatively big companies are included in the survey field; the survey does not take account of the surveyed companies' overall human resource strategies such as retrenchment, downsizing and the consequential increase in staff's workload); suggest that the pay trend survey should also take account of changes in workload in relation to pay movements.
- Some suggest enlarging the survey field and obtaining additional pay-related data from the surveyed firms, but do not support any radical changes to the existing methodology.
- Some consider that the existing methodology of the annual pay trend surveys is well established and should continue; some opine that only large firms should be included in the survey field.

II. Views on the Task Force's recommendations for the medium term

Introduction of performance pay and flexible pay ranges

(a) Central staff consultative councils and major service-wide staff unions

- The existing performance appraisal system should be improved and revised as appropriate before the introduction of performance pay.
- There is a suggestion that these recommendations should be studied within a time frame of two to four years.
- Concerned about the possible downsides of affecting team spirit and cooperation among civil servants.
- The existing performance appraisal system has already built in the mechanism to award increments based on performance. The proposed flexible pay range may create more problems than the existing mechanism.

- Do not support the proposal to link pay with performance since the work nature of the civil service is different from that of the private sector and it is difficult to set out the parameters for objective measurement of staff performance.
- While staff performance in the private sector can be easily assessed on the basis of objective parameters such as company profits, it is difficult to measure the performance of civil servants who are mainly involved in providing service to the public.
- Difficult to compare the performance of staff in different posts.
- Many junior civil servants in the five countries studied by the Task Force are not eligible for performance rewards; should examine the reasons behind and avoid introducing performance pay hastily.
- Should further consider how to award staff with outstanding performance who are already on their maximum pay points.
- Suggest allocating funds for rewarding outstanding performance to help foster a performance-driven culture.
- Disagree with the comment in the report that the existing pay system rewards good performers, under-performers and non-performers indiscriminately since the Civil Service Regulations stipulate that the grant of increments is subject to satisfactory performance.
- Concerned that performance pay would give rise to unfairness and a flattery culture and affect staff morale. There are also concerns that performance pay may lead to divisiveness and unhealthy competition among civil servants and increase the likelihood of corruption.
- The emphasis on individual performance instead of team-based performance for performance pay purpose is not conducive to fostering team spirit, which is particularly important for the smooth operation of the disciplined services.
- Some suggest that civil service salary should include an element of flexible pay, which is on top of the base pay and which would be subject to periodic adjustment according to certain objective factors.

- Consider it acceptable to apply performance pay and flexible pay range to directorate officers who have a higher level of responsibility and have more discretion at work; do not agree to extending the arrangements to the rest of the civil service.
- Performance pay is not suitable for the disciplined services, which put great emphasis on team spirit.

(b) Other civil service staff unions/civil servants

- Have reservations primarily because of the lack of objective parameters for performance measurement for awarding performance pay.
- An objective and fair performance appraisal system should be put in place before the introduction of performance pay.
- Difficult to measure the output of civil servants who are mainly involved in providing service to the public.
- Concerned that performance pay would give rise to unfairness and a flattery culture and affect staff morale. There are also concerns that performance pay may lead to divisiveness and unhealthy competitions among civil servants and increase the likelihood of corruption.
- Due to the lack of financial resources, the incentive element of performance pay would be limited.
- The existing system of fixed pay scales is objective and easy to manage. The proposed flexible pay ranges, on the other hand, are less transparent as the pay reward would be based on a subjective assessment of the staff's performance.
- Performance pay is not suitable for the disciplined services, which put great emphasis on teamwork.
- Do not agree with the Task Force's comment that the existing pay system rewards staff regardless of their performance as the existing arrangement already provides for the stoppage and deferment of increments to deal with under-performers.

- Support the proposed implementation of performance pay at the directorate level on a trial basis, but there should be a proper channel for appeal in order to ensure fairness.

(c) Departmental Management

- Performance pay would be conducive to fostering a performance-driven culture; successful implementation of performance pay would rely on the availability of a fair, reliable and credible performance appraisal system.
- The existing performance appraisal system does not cater for the implementation of performance pay; support the proposal of a critical review of the existing performance appraisal system to pave way for the introduction of performance pay in the long run; the new appraisal system should be accompanied by an independent appeal mechanism.
- Some suggest to introduce assessment by subordinates and peers in addition to assessments by supervisors.
- A change in the mindset of civil servants is required to ensure honest and fair staff appraisals.
- Concerned about the practical difficulties in setting the benchmarks for performance measurement, particularly regarding assessment on the qualitative aspects of performance.
- Some express concern that the introduction of performance pay would give rise to considerable administrative work for handling staff complaints and disputes on pay matters. Also concerned about inconsistencies in performance standards among departments.
- The lack of financial resources may impose constraints on the introduction of performance rewards.
- Consider it acceptable to introduce performance pay and flexible pay ranges on a trial basis at the directorate level.
- Consider it inappropriate to introduce performance pay in the disciplined services where teamwork and team spirit are critical.

- Need to consider whether the civil service pay should be determined by the head of grade who oversees the performance of grade members or by the head of department as the resource controller.
- As a related issue, there should be a more effective system for sanctioning and removing non-performers.
- Do not agree with the Task Force's comment that the introduction of flexible pay range would make it easier for the pay levels of some civil service jobs to be adjusted in accordance with corresponding market trends. Pay adjustment by reference to comparison with private sector pay should be done across-the-board rather than on a piecemeal basis for selected grades only.

(d) Non-civil service organizations and members of the public

- Some support the introduction of performance pay to better motivate staff and to bring the civil service pay system more in line with private sector practice.
- The granting of annual increments to civil servants, which was fairly automatic in most cases, could hardly motivate staff and should be abolished.
- Should revamp the pay scales so that there is greater flexibility in rewarding deserving staff. The number of civil servants eligible for a pay rise should, however, be subject to budgetary considerations.
- Some express reservations about the introduction of performance pay in the civil service in view of the emphasis on teamwork and the difficulty in measuring the performance/output of individual staff.
- Concerned that performance pay may affect team spirit and give rise to vicious competition and distrust among civil servants.
- Some consider that performance pay should be introduced in selected departments only (e.g. trading fund departments). It should not be considered for those departments where the performance/output of individual staff is hard to be quantified or measured.

- Support the introduction of performance pay at the directorate level on a trial basis.

Consolidation of job-related allowances (JRAs) into base pay

(a) Central staff consultative councils and major service-wide staff unions

- JRAs are intended to compensate for staff performing additional duties; the proposal would be unfair to those who are required to perform additional duties.
- There would be a lack of incentive for staff to perform additional duties. This would lead to difficulty in deploying staff to perform such duties.

(b) Other staff unions/civil servants

- Do not support the proposal as JRAs are meant for compensation for the performance of additional duties and the proposal would be unfair to those who are required to perform additional duties.
- There may be difficulties in deploying staff to perform additional duties if JRAs are consolidated into the base pay.
- The consolidation of JRAs into the base pay would lead to higher pay levels and give the wrong impression that civil servant are highly paid.
- Consideration should be given to removing out-dated allowances and reviewing the criteria for the payment of JRAs instead of consolidating JRAs into the base pay.

(c) Departmental management

- Generally support the consolidation of JRAs into the base pay in order to save costs and reduce administrative work.
- Given the unique nature of work of the disciplined services, flexibility should be allowed for the retention/consolidation of JRAs for their staff.

- Consider that the JRAs for police officers are justified and it seems that there is no need to change the existing practice.

(d) Non-civil service organizations and members of the public

- Support the proposal of consolidating JRAs into the base pay in order to reduce administrative costs and to bring the civil service system more in line with private sector practice.
- Do not support the proposal as this would increase the pay level of the civil service and give a wrong impression to the public that civil servants are overpaid.

III. Views on the Task Force’s recommendations for the long term

Consolidation of all fringe benefits into the base pay in pursuit of a “clean wage” policy

(a) Central staff consultative councils and major service-wide staff unions

- Have doubts about the merits of a “clean wage” policy since fringe benefits are important for attracting and retaining talents; the proposed incorporation of such benefits into the base pay may diminish the attraction of the civil service to job seekers.
- Fringe benefits are provided to civil servants as part of the conditions of service under the employment contract. It is neither lawful nor reasonable for the Government to impose unilateral changes to the fringe benefits provided to serving staff for the purpose of saving administrative costs.

(b) Other civil service staff unions

- The proposal has the merit of reducing administrative costs and allowing staff more flexibility in enjoying the benefits as it is expected that there will be less restrictive rules governing the payment of various kinds of allowances/benefits. But it would lead to higher civil service pay levels and cause resentment among the general public.

- The proposal would increase the Government's expenses on pension payments and the tax burden of staff.
- It would be difficult to monetise the various types of fringe benefits for incorporation into the base pay.
- Given the wide diversity of benefits/allowances for various grades/ranks for the performance of additional duties, the incorporation of these allowances into the base pay may further complicate the existing civil service pay structure.
- The provision of fringe benefits to serving staff is protected by the Basic Law and the proposal may be in breach of the relevant provisions of the Basic Law.
- The fringe benefits provided to civil servants should be retained as such benefits are an important attraction of civil service jobs.

(c) Departmental management

- Support the proposal as it would help to save costs and reduce administrative work. It would also provide more flexibility to staff in enjoying the fringe benefits.
- Fringe benefits are the major attraction of civil service jobs and it may be more difficult to attract talents if they are consolidated into the base pay.
- Concerned about the implications of the proposal on payment of pension and gratuities, the tax burden on staff and future adjustments to civil service pay.
- There should be consultation with staff on how various types of allowances should be monetised for consolidation into the base pay.
- Should allow flexibility for the disciplined services in view of their special work nature.

(d) Non-civil service organizations and members of the public

- Some support the proposal as it would help streamline administrative procedures, save costs and modernize the civil service pay system.
- Some have reservations about implementing the proposal among serving staff as it may breach the Basic Law. Should apply it to new recruits only.

Decentralization of pay administration

(a) Central staff consultative councils and major service-wide staff unions

- Not practical as the proposal may lead to pay disparity for similar jobs among departments and cause extra administrative work at departmental level.
- Concerned that the proposal may give rise to unhealthy competition among departments for resources and talents and may affect the stability of the civil service.
- Consider that the introduction of the operating expenditure envelope already instils a greater sense of financial control at the departmental level. Concerned about the possible significant financial burden on departments if they are required to fund out of their envelopes the expenses on pension benefits for their retired staff.

(b) Other staff unions

- Concerned that the proposal would give rise to disparity in pay levels for similar jobs in different departments as well as disputes between management and staff on pay matters.
- As the Government is the single employer of all civil servants, the pay for the entire civil service should best be managed centrally.
- The proposal would give rise to additional administrative work and divert the attention of departmental management from its core functions.

- Concerned that the proposal would introduce barriers to cross-posting, undesirable competition for resources and a negative impact on inter-departmental cooperation.

(c) Departmental Management

- A very cautious approach should be adopted in view of the complex issues involved and the far-reaching implications.

For those who are positive about the proposal

- The proposal would allow departments more flexibility in the pay arrangements for their staff to meet their operational needs. Decentralization of pay administration should be accompanied by broader delegation of financial management and control responsibilities so that departmental management could mobilize resources to suit their operational needs in response to rapidly changing environment.
- Adequate training, guidance and support should be given to departmental HRM personnel.
- A change in the mindset of civil servants would be required for the successful implementation of this proposal given the long existence of a uniform approach in pay administration within the civil service.
- There should be a central system for devising a formal job evaluation system and conducting relevant pay researches/surveys to provide information for reference by departments for pay determination.
- Appropriate guidelines should be drawn up to help maintain internal relativity and consistency.
- This proposal entails a major change to the existing system. It is important to secure the support of staff before implementation.

For those who have reservations about the proposal

- Concerned about the potential problems of a fragmented civil service pay system and inconsistency in the pay levels of staff doing comparable jobs in different departments, which may give rise to staff grievances.

- May result in duplication of efforts among departments in pay administration, loss of economy of scale in pay administration and increase in administrative costs.
- There may be a lack of HRM expertise at the departmental level to handle pay matters.
- Departments should concentrate their efforts on their core functions rather than diverting their attention to pay administration matters.

(d) Non-civil service organizations and members of the public

- Support the proposal which would empower departmental managers with human resources management responsibilities.
- No need to change the existing system as all civil servants in departments are employed by the Government as the single employer.

Simplification of grade structure

(a) Central staff consultative councils and major service-wide staff unions

- Would not support the proposal if it affects staff promotion prospects and staff morale.

(b) Other civil service staff unions

- The proposal would be conducive to enhanced efficiency.
- Should consider the simplification proposal in consultation with staff on a case-by-case basis having regard to the functional needs of individual grades.
- Priority should be given to merging grades which perform similar functions.
- Need to address concerns about a possible adverse impact on promotion prospects.

(c) Departmental management

- Suggest that consideration be given to merging small grades which have limited scope for specialization and career development with a view to developing a multi-skilled workforce and enhancing flexibility in staff deployment.
- The room for merging with other grades or simplification of the grade structure may be limited in certain professional grades.
- The proposal may have implications on promotion prospects and staff morale.

(d) Non-civil service organizations and members of the public

- One suggests that certain grades should be consolidated and jobs specifications should be revised so as to allow greater flexibility in staff deployment within and between departments.

Departmentalization of general/common grades

(a) Central staff consultative councils and major service-wide staff unions

- Some are strongly opposed to the proposal as there are already frequent complaints from departmental staff of a flattery culture and unfair appraisals.

(b) Other civil service staff unions

For those who are positive about the proposal

- The proposal has the merit of fostering a sense of belonging among staff to their department. It would also help to retain experienced staff who are familiar with the operation of their parent department.

For those who have reservations about the proposal

- The proposal would affect the exposure, career development and promotion prospects of staff, particularly those in small departments.

- The existing system of managing general grades staff centrally has been working well; concerned that the proposal would give rise to abuse and mismanagement.
- General grades staff are mainly involved in general administrative and resources management functions in departments. They would be in a better position to perform an independent role in ensuring compliance with centrally promulgated rules and regulations if they are managed by their own heads of grades rather than the heads of departments.

(c) Departmental management

- The proposal would help cultivate a sense of belonging among staff to their parent department. It should be feasible to implement it in large departments where there are more opportunities for job rotation and advancement.
- Expect that staff, particularly those in small departments, would resist the proposal in view of the possible negative impact on their career development and promotion prospects.
- For certain general grades (e.g. the Executive Officer grade), it would be desirable to maintain the existing arrangements of inter-departmental postings so as to broaden the exposure of staff and facilitate the transfer and exchange of expertise among departments. This is particularly so with the trend of devolution of more financial and human resources management functions to departments.

(d) Non-civil service organizations and members of the public

No particular comments.

Civil Service Bureau
January 2003