

**Consultancy Study for an Analytical Study on the Latest
Developments in Civil Service Pay Administration
in Other Countries – Final Report**

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Executive Summary

1. PwC Consulting were appointed in February 2002 by the Task Force on the Review of Civil Service Pay Policy and System to conduct research into the latest developments in civil service pay administration in selected governments, and to identify practices that might be of relevance to Hong Kong, having regard to the history and development of the civil service pay system here. The research examined the key principles and broad arrangements adopted in Australia, Canada, New Zealand, Singapore and the United Kingdom, focusing on five key areas of interest to the Task Force:
 - Commonly adopted pay policies, pay systems and pay structure
 - Experience of replacing fixed pay scales with pay ranges, or other pay systems
 - Systems and mechanisms for determining pay levels and pay adjustments
 - Experience of introducing performance-based rewards (or other means to better motivate staff)
 - Experience on simplification and decentralisation of pay administration.
2. In April 2002 we submitted our Interim Report on the research to the Task Force and this was subsequently made available for public consultation. This Final Report provides a broad overview of the responses to the issues raised in the public consultation feedback and sets out our advice to the Task Force on the areas of pay administration reform we believe are worthy of further consideration in Phase 2 of the Civil Service Pay Review.

Responses to the Public Consultation

3. The Task Force received a total of 337 written submissions in response to the public consultation. These came from a wide range of interested parties, including departmental management, civil service unions, staff associations and consultative groups, individual civil service managers and staff, members of the public and outside interest groups. Of the total responses, about 40% were formal submissions from departmental management, staff groups and civil service unions/associations. A further 20% of submissions were from individual civil service managers and staff.
4. In addition, the Task Force has also held six consultation sessions for civil service management, staff representatives and the general public.
5. There are a diverse range of opinions expressed on most issues, both between and within the main stakeholder groups. Civil service management responses are generally more open to reform of the civil service pay regime, as are non-civil service responses. Civil service staff and union responses tend to argue for retaining existing arrangements as being tried and trusted.
6. The responses to the public consultation from all parties within the civil service are cautious, to varying degrees, about the need for a radical overhaul of the existing pay

policy and system, as opposed to more limited enhancements. In particular, they feel that:

- The case for change has not yet been clearly articulated. There is a need for a better understanding of what works well and what does not, and not just to make change for the sake of change
 - It is vital to maintain civil service stability and staff morale going forward
 - Any justified reforms should be introduced progressively, with a lot of accompanying staff communications and involvement.
7. Civil service staff, in their responses, also express that the fundamental issue is not with the adequacy or appropriateness of existing arrangements, but how management choose to apply them. They are also sceptical about the Administration's intentions in initiating the Pay Review at this time.
8. Generally, responses from all the interested parties within the civil service – management, staff, unions, etc - tend towards the status quo in several aspects of pay administration, including:
- Retaining the principle of broad pay comparability with the private sector
 - Rejecting affordability as the overriding consideration in pay adjustments (although some responses from individual civil service managers are more supportive of the idea)
 - Retaining separate pay arrangements for the disciplined services
 - Retaining the existing mechanisms for pay adjustment
 - Not decentralising pay and grading responsibilities (although again this is slightly more support from individual civil service managers).
9. At the same time, responses from all parties within the civil service indicate some support for:
- Grade rationalisation and the introduction of broader occupational categories
 - The introduction of formal job evaluation as a basis for determining internal relativities.
10. Civil service management responses are generally more positive about a range of other possible reforms, including:
- Introduction of a clean wage policy
 - Introduction of separate arrangements for the senior civil service
 - Replacement of fixed pay scales with flexible pay ranges
 - Introduction of performance-based rewards
 - Departmentalisation of the General/Common Grades.

Suggested areas worthy of further consideration in Phase 2 of the Pay Review

11. It is not within the remit of this consultancy to make specific recommendations for the Hong Kong civil service's future pay administration arrangements. However, based on our understanding of the context and development of civil service pay administration in Hong Kong, the experience of the surveyed countries and the feedback from the public consultation, we believe that there would be merit in the Task Force exploring further in Phase 2 of the Pay Review all the five areas of pay and grading interest, as covered in our research. More specifically there would be value in:
 - Making a considered determination of the degree and pace of appropriate change to civil service pay policy and arrangements, based on a fundamental review of current policies, principles and arrangements, and the requirements and options for the future
 - Setting a more explicit policy on clean wages
 - Examining further how the principle of broad comparability with the private sector should be best applied
 - Looking further at whether and how the principle of affordability should be applied in civil service pay determination and adjustment
 - Examining further the separate treatment of the senior civil service
 - Reviewing the rationale and policy for separate pay treatment of the disciplined services
 - Exploring further whether and how flexible pay ranges should be introduced
 - Reviewing the mechanism for determining pay levels and adjustments
 - Exploring further the case and options for performance-based rewards
 - Examining the scope for further delegation of responsibility for pay and human resources management to individual departments
 - Exploring the scope and approach to grade simplification.
12. By their nature, many of the highlighted issues are linked or interdependent. As such we believe it is important for the Task Force to take a coordinated, holistic and prioritised approach to exploring them further. More specifically, we would encourage the Task Force, at an early stage, to develop a high level vision of the key principles and outline features of the civil service pay administration arrangements it believes the Administration should work towards implementing.
13. As noted in our interim report, successful pay and grading reform is typically dependent on complementary reforms in a number of other areas, such as the broader delegation of HR and financial management responsibilities and the introduction of robust and credible systems of performance measurement and management. As such the Task Force's consideration of the above issues and opportunities should take account of, and will be strongly influenced by, whatever wider agenda the

Administration has for civil service reform.

14. In moving forward the Task Force will also need to give equal consideration to the best way of introducing any identified pay reforms, as to the changes themselves. The importance of effective implementation planning and change management cannot be overstated. Recognising and responding to the issues and concerns of key stakeholders will be vital.

Introduction

15. PwC Consulting were appointed in February 2002 by the Task Force on the Review of Civil Service Pay Policy and System to conduct research into the latest developments in civil service pay administration in selected governments, and to identify practices that might be of relevance to Hong Kong, having regard to the history and development of the civil service pay system here. In particular, the research focused on five key areas of interest, as set out by the Task Force:
 - Commonly adopted pay policies, pay systems and pay structure
 - Experience of replacing fixed pay scales with pay ranges, or other pay systems
 - Systems and mechanisms for determining pay levels and pay adjustments
 - Experience of introducing performance-based rewards (or other means to better motivate staff)
 - Experience on simplification and decentralisation of pay administration.
16. In April 2002 we submitted our Interim Report to the Task Force; this was subsequently made available for public consultation as an attachment to the Task Force's own interim report. Our report set out the findings from the international research and focused on the key principles and broad arrangements adopted in Australia, Canada, New Zealand, Singapore and the United Kingdom. For reference and convenience, a brief summary of our interim findings and conclusions can be found in Appendix A to this report.
17. The public consultation period was originally intended to be for one month from 25 April 2002, but was extended by the Task Force until 30 June 2002 in response to requests from interested parties. The Task Force received 337 written submissions from a wide range of groups and individuals, including departmental managements, civil service unions, staff associations and consultative groups, individual civil service managers and staff, members of the public, and outside interest groups. The Task Force also held a total of six consultation sessions with interested parties in the civil service and the general public. All the comments and suggestions made in the written submissions and consultation forums have been given careful consideration.
18. In this, our Final Report, we now:
 - Provide a broad overview of the feedback received during the public consultation in relation to the five key areas covered by the research
 - Offer our advice to the Task Force on the main areas of pay administration reform we believe the Task Force should explore further in Phase 2 of the Pay Review, taking account of the findings from the international research and public consultation.
19. We would re-iterate at this point that it has not been within our terms of reference to undertake a critical assessment of the strengths and weaknesses of the Hong Kong civil service's current pay administration arrangements or to make specific recommendations

for the future civil service pay policies, structures and systems best suited to the local need. These will be matters for the Task Force to address in its future deliberations.

Overview of Responses to the Public Consultation

Introduction

20. In this section we highlight the broad comments, sentiments and ideas put forward by a wide range of interested parties in response to the public consultation conducted between 25 April and 30 June 2002.
21. The source, nature and quality of the 337 written submissions are diverse. They include both collective and individual responses and some 60% are from parties within the civil service. Some responses only give general views about the pay review, while others, in particular those from within the civil service, comment in detail on individual questions raised in the Task Force's consultation document. Some departments and interested parties have conducted surveys of their constituent members and provided findings from these self-organised initiatives. Responses from former and existing civil servants show a good understanding of the research topics under study. Management responses are insightful and well-articulated.
22. The contributions at the six consultation forums are similarly diverse, representing both group and individual positions. Not unexpectedly, the views expressed at these forums are much in line with the written submissions.
23. Our overview of the responses is organised around the five key areas of interest raised by the Task Force. The indications of the strength of support for, or against, particular areas of pay administration reform are based on a systematic analysis of the written submissions. Our feedback on the arguments put forward on specific topics, issues raised and ideas proposed draws on both the written submissions and the consultation forums.
24. In summarising the views in the consultation responses we have distinguished five main categories of respondent:
 - Civil service management groups and individual managers
 - Civil service staff groups, including departmental consultative committees, and individuals
 - Unions and civil service associations
 - Non-civil service interest groups, such as business associations and political parties
 - Members of the public.

Commonly adopted pay policies, structures and systems

The degree of reform required to current arrangements

25. About 200 written submissions respond to the question as to whether there should be a major overhaul of the civil service pay policy and system. Overall, the responses suggest no clear consensus within the civil service or in the community on this fundamental issue of civil service pay reform.
26. Just under half of the civil service management group responses and just over half of the individual civil service manager responses indicate some degree of support for a broad review of civil service pay arrangements. They are open to the possibility of significant reforms to keep up with changing times and expectations. They believe it is a good opportunity to build flexibility into the pay policy, system and structure, so as to motivate staff, enhance efficiency, and meet public expectations and future challenges. The remaining management group/individual manager responses tend to favour the status quo, or express reservations on the need for a major overhaul. Some suggest focusing more selectively on areas in need of improvements in the existing arrangements (an option the consultation document did not specifically address).
27. A clear majority of the civil service staff and interest group responses (eg grade associations, civil service unions and federations, etc) do not support a major overhaul of the current pay policy, structure and system, citing the need to maintain the stability and morale of the civil service. They are sceptical about the drivers of this reform initiative and tend to see the pay review in conjunction with the recently announced civil service pay reduction. They argue that most of the current policies and systems are well established and proven, and, therefore, are not convinced of the need for significant changes. They are worried that a major reform will bring about uncertainty and a negative impact on staff morale. However, they agree that it is necessary to identify areas for improvement and regularly review the pay regime so as to keep it in line with the changing environment and make it comparable with the private sector.
28. Nearly all responses from non-civil service interest groups, and over half of individual responses from the general public, are supportive of a major review and overhaul of the civil service pay regime. These external parties feel there is a compelling case to review and revamp the civil service pay policy and system in light of the perceived significant pay disparity between the public and private sectors, some outdated benefits and allowances inherited from the past, and the rigidity in the current arrangements.
29. In considering this topic, specific issues raised in the various responses, whether in written submissions or at consultation forums, include the need for:
 - A better understanding of the future role and projected size of the civil service, with respect to the provision of services to the public, and the impact of this upon the appropriateness of different civil service pay arrangements
 - Clarity about the wider reform context within which the pay review is being conducted

- A clear sense of direction for pay reforms, supported by long term and short term implementation targets
 - A proper assessment of the strengths and weaknesses of the current arrangements (ie what works well and has to remain; what does not work well and has to be improved), and identification of priority areas for attention
 - Recognition that civil servants can be motivated by non-monetary factors (eg job security, sense of mission/public service)
 - A review of the effectiveness of the recent changes in entry salaries and employment of non-civil service contract staff, before any further reform is introduced.
30. Suggestions made in the responses on implementing pay reforms include:
- The need for changes to be introduced incrementally, to ensure smooth progression and continuity of the public service
 - The need for open and frank discussions with staff and unions to solicit buy-in and support and to address concerns about civil service stability, morale and integrity
 - The restricted application of any new system to new recruits only
 - The option for existing staff to opt out of any proposed changes.

Clean wage policy

31. Around 130 written submissions express views on the issue of a clean wage policy, and the overall benefits and allowances for civil servants.
32. A large majority of civil service management responses, both group and individual, indicate support for a clean wage policy. They see benefits in terms of cost saving from administering the system, reduced opportunities for technical breaches or abuses, increased flexibility in the way staff spend the benefits, and removal of differences in entitlement because of personal circumstances, eg having children or not.
33. Staff group and union/association responses, on the other hand, have more mixed views towards the issue. While some of these responses favour a move towards a clean wage policy, most prefer the status quo or are neutral on the subject. Concerns about a clean wage policy include:
- Risk that it will be used as an excuse for removal of some of the existing benefits
 - Fears that it could give rise to unfairness or double benefits for some, due to varying needs and eligibility for various types of allowances
 - Possibility that it could lead to a public misimpression that civil servants are paid too much.
34. Most responses from individual civil service staff support a move to a clean wage policy, as do most responses from individual members of the public and non-civil service interest groups. They believe that some of the ‘outdated’ allowances should be

abolished and a clean wage policy would increase the transparency of civil service allowances and benefits.

35. Specific issues raised by respondents for further consideration include:
- Whether the provision of benefits and allowances is protected under the Basic Law or existing employment terms and conditions, and the powers of the Government to change this
 - The need for a comprehensive review of civil service benefits and allowances, as part of the remuneration package, to ensure broad comparability with the private sector pay
 - Eligibility for and calculation of the cash amount for the benefits and allowances.
36. Some responses suggest that if a clean wage policy is introduced it should only be applied to new recruits or promotees in the first instance.

Broad comparability with the private sector

37. Some 160 written submissions respond to this question in the consultation document.
38. Responses from all parties within the civil service are strongly in favour of retaining broad comparability with private sector pay. They see a strong need to keep civil service pay competitive or even slightly higher than private sector pay in order to recruit and retain talents for the civil service. Management responses generally support the Government continuing to conduct regular pay level, pay structure, and pay trend surveys. Some civil service staff and union responses argue that ensuring broad comparability is a feature of being a good employer. In their view, this would require continuation of regular pay trend surveys and benchmarking with the upper quartile of the market range.
39. Most responses from the general public support the broad comparability principle. While some responses from non-civil service interest groups support the broad comparability principle, other express concern about achieving comparability in practice, in view of the existing perceived disparity between public and private sector pay levels. In achieving broad comparability, some responses highlight the need for regular pay level surveys and formal job evaluations in light of the perceived gap between private sector and civil service pay which has built up over the years. Some point to the ineffectiveness of the current mechanism by comparing a monolithic single public system with lots of other diversified private systems. As an alternative, they propose comparison be made between occupational groups rather than between the civil service as a whole and the private sector.
40. Specific issues raised for further consideration include:
- The different nature of business between public and private sectors and therefore the need for separate sets of considerations in determining pay

- The problem of assuring comparability when no pay level survey has being conducted in the past 13 years
- The lack of comparable private sector analogues to benchmark against some civil service job categories
- The reliance on minimum academic qualifications as a primary basis for determining job value.

Affordability to pay as an overriding consideration

41. Some 170 written submissions give comments and views on this issue.
42. A vast majority of the responses from the wider civil service community are against affordability to pay as an overriding consideration in determining pay adjustments. Many are worried that this principle is vulnerable to political considerations and affected by other wider economic factors and decisions ; and, as a result, staff morale may suffer.
43. Some civil service management responses see a stronger case for adjusting pay according to affordability in departments that need to be financially self-sufficient, eg trading funds. A few suggest the streamlining of work processes and/or voluntary redundancy schemes to be used to contain staff costs.
44. Some civil service staff group and individual responses suggest that the term 'affordability' needs to be clearly defined because there are many factors at play (eg revenue generation and resources allocation). They argue that they need a stable income to pay for normal living expenses and deserve the pay irrespective of the economic situation. They also believe they should not be the group highlighted to bear the brunt of the economic downturn, since they did not share in the economic boom in the past (eg in the form of year-end bonuses).
45. Responses from the general public and non-civil service interest groups indicate mixed views as to whether affordability should be an overriding consideration for pay adjustment. Those opposed to the idea hold the same arguments as civil servants. Those in favour of the principle see that staff costs constitute a significant percentage of public spending and therefore the affordability to pay would help the Government to exercise greater financial discipline and contain the current deficit.
46. A specific issue raised in the responses for further consideration is whether the Government should consider exploring the possibility of sharing the upside with civil service employees if affordability is a primary determinant of future civil service pay adjustments.

Separate pay regime for the senior civil service

47. There are about 130 written submissions expressing views on the idea of setting a separate pay regime for the senior civil service. Responses from the civil service indicate divergent views on this issue.

48. Nearly half of the civil service management group returns and well over half of the individual manager responses indicate support for senior civil servants being subject to a different pay policy, with more emphasis on risk and reward factors. They believe a separate pay regime for the senior civil service would help reflect the intrinsically different nature, roles and responsibilities, and accountability of this top layer in the civil service and ultimately better reward them. In terms of implementation, they also think changes in pay policies and systems for this group will be more readily worked out and agreed to, given the relatively small number of staff involved. The remaining management responses are more in favour of the status quo or neutral to the issue, citing the need for a clearer definition of the senior civil service, and arguing that the motivation of senior civil servants comes from job satisfaction, sense of achievement, and ability to influence public policy, rather than the monetary incentives. They also see a potentially divisive effect between the senior staff, and the middle and the lower staff, if separate arrangements are introduced. One of the key alternative proposals put forward in the responses is to strengthen the risk and award factors in individual goal setting under the existing performance appraisal mechanisms.
49. There is a wide spread of different views in the responses from civil service staff and unions. While some responses are neutral toward this issue, more favour maintaining the status quo (ie no separate arrangement) than support a change. Those opposed to separate arrangements believe the current pay scales already adequately reflect the differences in work nature and accountability and, thus, a separate pay regime for the senior civil service is not necessary. They are worried that over-emphasis on the risks/rewards factors would distort the basic values of the civil service – which focus on accountability and a stable working environment. They are also concerned that separate arrangements would lead to a widening of the pay differences between senior, middle and lower staff, and thus increased divisiveness within the civil service.
50. A large majority of the non-civil service interest group responses and to a slightly lesser degree the individual responses from the general public support the separation of senior civil service pay arrangements from those of others. Their reasons are:
- The senior civil services’ greater responsibilities and accountability
 - The need for senior civil service pay to be closely aligned with their private sector counterparts to recruit, motivate and retain talents
 - The need for more stringent criteria for pay rises for an already well-paid group.
51. Some of the non-civil service responses also highlight the need for similar risk/reward factors for middle and junior civil servants because they are part of the team, underpinning and supporting senior management in successful job delivery.
52. Specific issues raised in the responses on this topic for further consideration include:
- The need for a clear definition of what constitutes the senior civil service
 - Management of substandard performance in the senior civil service when placing more emphasis on rewarding good performance

- Need for greater mobility within the senior civil service for career development and for better staff deployment.

Treatment of the disciplined services

53. About 150 written submissions give views and comments on this issue. A common theme from all the responses is that the coverage of the disciplined services has to be clearly defined for the future, in terms of which departments and which job groups are to be covered.
54. To a larger extent responses from within the discipline services are in favour of continuing a separate pay regime, as are the majority of the civil service management responses. They perceive a need for separate pay arrangements for the disciplined services to recognise the special nature of work, which is associated with high risks, irregular work hours, tremendous stress, strict disciplinary rules, and the importance to maintain integrity of the law enforcement operations. Some believe the current arrangements (ie the Police and the General Disciplined Services Pay Scales) have already distinguished the treatment between civilian and disciplined services staff.
55. Responses of civil service staff and unions/associations both show mixed views on this issue, although there is slightly greater support for keeping separate arrangements. Those against separate arrangements argue they are potentially divisive.
56. Most non-civil service interest group responses are in favour of a separate pay regime for the disciplined services, citing similar arguments to other in support of differentiation. Responses from the general public are evenly split as to whether there should be separate treatment for the disciplined services or not.
57. A key issue raised in the responses for further consideration is how the disciplined services should be defined in future. For example, which departments should be included and which are more appropriate to be included as part of the civilian service? Should disciplined services pay arrangements cover administrative and other civilian staff working in disciplined services departments?

Replacing fixed pay scales with pay ranges or other pay systems

58. Some 175 submissions comment on this issue.
59. Just over half of the civil service group management responses, and to a lesser degree submissions from individual managers, are in favour of introducing flexible pay ranges in the civil service. Many of those in favour of pay ranges see the benefits in terms of:
 - Helping to motivate staff (particularly those who have reached the maximum of the pay scales)
 - Enhancing the performance culture
 - Creating flexibility in pay in response to market trends

- Encouraging reasonable risk-taking and innovation in the civil service.

Those in this group opposed to the idea think that it may encourage a ‘shoe-shining’, flattering culture, and favouritism.

60. Half of the responses from civil service staff groups and an even larger majority of union responses are against the introduction of pay ranges. They believe the fixed pay scales system is more suitable for the civil service, which is largely service-oriented; and, if properly managed, can retain capable staff and thus maintain stability of the civil service. They are worried that pay ranges, if introduced, can lead to a great disparity in pay for the same posts across departments. They highlight a number of potential issues in the implementation stage, eg:

- Most work is difficult to quantify and measure in an objective way
- Some staff work on a team basis and therefore it is difficult to assess their individual performance
- There is concern about fairness as staff cannot select their jobs and some posts offer greater opportunities for demonstrating individual capability
- The emphasis on the performance-pay element will give rise to short-sighted measures or short-term goals to yield quick returns
- It is likely to lead to a greater number of disputes between staff and supervisors, and subsequently lead to increase in resources for managing appeals and complaints.

61. A majority of responses from the non-civil service interest groups and to a less extent responses from the general public are supportive of the idea of introducing flexible pay ranges to link pay to performance. Most of them do not like the current fixed pay scales, pointing out both that the annual increments are primarily time-based rather than merit-based and that the award of increments adds to staff cost regardless of economic conditions and affordability.

62. Alternatives proposed in responses to enhance staff motivation include:

- Introduction of pay ranges as an extension beyond the maximum points of current fixed pay scales to reward performance from a separate source of funding
- Better management of the current annual increment system (eg more increment points for outstanding performance or strictly no increments for under-performance) to differentiate levels of performance
- Other forms of rewards such as free travel passage and overseas training.

63. Implementation suggestions from the responses include:

- Introducing pay ranges for new recruits only, allowing serving staff discretion to opt in/out of any new arrangements
- Revamping the current performance appraisal mechanism, which is not suitable for the purpose

- Establishing a credible, fair, objective performance measurement and assessment mechanism, in conjunction with clear guidelines, to underpin the introduction of pay ranges
- Starting with narrow performance ranges (eg about 10% of base pay) and expanding the variable component if this proves successful.

Coverage of the pay ranges system

64. Opinions vary as to which levels of staff in the civil service pay ranges should apply to. The majority of all responses support the Government piloting the concept in the senior civil service. The main reasons given are that senior civil servants have heavier management responsibilities and have influence and choice over what they do. It is felt that junior staff can remain governed by the fixed pay scales system until they are more ready to accept the pay ranges concept. They suggest that a move to pay ranges below the senior civil service should be considered if the pilot implementation is deemed successful.
65. Some responses argue that civil servants at all levels should be subject to the same pay regime if pay ranges are introduced, as this will ensure fairness and avoid potential divisiveness in the civil service.
66. Opinions are also split as to whether pay ranges should be applied to disciplined services. The civil service management responses generally consider the principles can be applied to both civilian and disciplined services. Some, however, highlight that the disciplined services may have some considerations unique to themselves and are therefore cautious about extending any such arrangements to cover them.
67. An overwhelming majority of the responses from the disciplined services see no major benefits of pay ranges to their departments, because of the potential rise of malpractice and unnecessary competitiveness if the new system is not carefully managed.
68. Civil service staff association and union responses are also adamantly against applying pay ranges to the disciplined services. They argue that the nature of law enforcement and related work is reactive and not within the control of staff in most circumstances to influence their performance. They believe performance related pay ranges could also give rise to corruption in the disciplined services.

Systems and mechanisms for pay adjustments

69. There are about 150 submissions expressing views on this specific issue.
70. Most of the civil servant responses opine that the current adjustment mechanism is fair, works well, and should not be replaced unless there is a better, proven alternative. They generally support the idea of more frequent and regular reviews to ensure that the current system is kept up to date with the changing environment. They argue that

although the current mechanism may seem inflexible, it offers the civil servants the kind of stability they expect when joining the civil service and therefore they do not need to worry about basic livelihood and can focus on their jobs. *(Note: Please also see the section on 'Broad comparability with the private sector' on page 11.)*

71. Specific issues raised in civil service responses for further consideration include the:
- Need to provide more information and educate the public in order to correct misunderstandings and public criticism about the existing pay adjustment mechanism
 - Need to identify and remedy any perceived weaknesses in the current mechanism
 - Possibility and appropriateness of linking civil service pay adjustments to GDP growth
72. A majority of responses from the non-civil service interest groups and individual members of the public point to flaws in the current pay trend formula and an absence of pay level surveys as the cause of a widening pay disparity between the civil service and the private sector. They propose a widening of the sample of private sector organisations used in the pay trend surveys to include small and medium enterprises, in addition to other improvement steps. They also feel that there is a compelling need to achieve more comparability between similar job types in the public and private sectors, rather than just across-the-board pay movements. *(Note: Please also see the section on 'Broad comparability with the private sector' on page 11.)*

Introducing performance-based rewards

73. Nearly 170 written submissions deal with this issue. Overall, civil service responses are divided on the question of introducing performance-based rewards.
74. Half of the civil service management group and individual manager responses are in favour of introducing performance-based rewards. These responses welcome performance-based rewards as an efficient means of motivating staff and encouraging good performance, especially for those staff who have reached their maximum salary. They also see benefits in terms of improved efficiency, productivity and accountability, and a reinforced performance culture in the civil service. However, some responses comment that performance-based rewards will only be effective when:
- Departments are given full authority to manage their resources (eg an extended one-line vote arrangement) and to resolve the appeals in an efficient manner
 - The size of award constitutes a significant portion (ie not less than 10%) of the base pay.
75. There are diverse views expressed in the civil service staff and union/association responses. While staff group responses tend to be against the notion of performance-based rewards, many individual staff responses are more supportive of the concept. Some union/association responses express support for the introduction of some form of

performance-based rewards, but most are against the idea. Those against think performance-based rewards could undermine the morale of staff, encourage divisiveness, and potentially give rise to a flattering culture within the civil service. They are particularly concerned that if performance-based rewards are to be introduced their success depends on a fair, transparent and objective performance measurement and assessment system. Specific issues raised in responses from this group include:

- The relationship between flexible pay ranges and performance-based rewards
- Concern about pressure to set and give priority to short term opportunities in order to yield quick results
- Difficulty and cost of administering and managing performance pay in practice, as there are so many grades and ranks across departments
- Practical or technical issues arising from quantifying and measuring outputs.

76. A significant majority of responses from non-civil service interest parties and over half of those from members of the public are in favour of performance-based rewards, believing in their potential motivational impact.

77. Some responses suggest the requirements for successfully introducing performance-based rewards. These include the need for:

- A comprehensive performance appraisal system – one that is fair and transparent
- Ample funds available to support the initiative or any marginal benefits would not be worth pursuing
- An efficient disciplinary system in place to deal with under-performers, including the ability to exit staff where necessary.

Types of performance-based rewards

78. A number of responses offer views on different types of performance-based rewards. Opinions vary.

79. Whilst most of these responses see the potential motivational effect from individual incentives, they are generally worried that the competition element will harm harmony or team-working in the civil service and in practice would be difficult to administer.

80. Other responses favour team-based rewards, as team building and spirit is more conducive to fostering a harmonious working environment in the civil service. They also believe the nature of work is more often on a team basis, particularly below the senior level, and that team rewards would be more acceptable to the junior staff. Some responses note that team-based rewards would not necessarily be an alternative to an individual performance-based rewards scheme.

81. Practical difficulties in implementing team-based rewards, as noted in responses, include:

- The wide variety in the nature and size of teams across/within departments and grades
 - Setting, quantifying and measuring team targets (and properly segregating the influence of external factors which are beyond the control of participating teams)
 - Distinguishing between high and low performance within a team in order to allocate the rewards in a fair and equitable manner.
82. Other suggestions, from the submissions, on appropriate types of performance rewards, include:
- Year-end bonuses to reward outstanding performance or successful completion of special projects or assignments, on the condition that the annual increment system remains
 - More use of intangible awards such as appreciation, commendation and other forms of recognition, such as travel, training and development opportunities.

Coverage of the performance-based rewards

83. Some responses propose that individual rewards should be first tried out with senior civil servants and gradually expanded to cover the wider civil service. They think this would help ensure fair and consistent arrangements for all levels of the civil service.
84. Opinions on whether performance awards should apply to the disciplined services vary greatly. Some responses caution that the introduction of any scheme in the disciplined services needs to be handled carefully in order to reinforce and reward the right behaviours and a valid set of outputs/outcomes.

Simplifying and decentralising pay and grading administration

Decentralisation of pay and grading responsibility

85. About 180 submissions provide comments on this issue and offer a diverse range of views as to whether decentralisation would work in the Hong Kong civil service.
86. Some civil service management responses welcome the idea of greater autonomy and control over human resources and financial management as a result of pay administration decentralisation. They believe it is possible to delegate the authority to departments within broad, central policy and parameters to best meet local needs. However, most management responses feel Hong Kong is too small to justify highly decentralised arrangements, and are concerned about the duplication and increased administrative costs, the loss of internal relativities under a fragmented system, competition between departments for resources, and the lack of needed expertise, skills, and resources at the departmental level to manage the system.

87. Overall, a majority of the staff group and union/association responses are in favour of the status quo, although over a quarter of union/staff association responses and around a half of individual staff responses support greater decentralisation. Those against greater delegation see it having a potentially divisive effect within the civil service, the loss of redeployment opportunity for some grades, greater uncertainty, and the risk of putting too much control over resources in the hands of departmental management. They believe implementation will be an extremely challenging task.
88. Non-civil service responses are divided on the issue, although a majority of the outside interest group responses favour greater decentralisation. Those supporting the idea for change argue that the current centralised pay system has become a barrier for efficient and accountable departmental operations and decentralisation is fundamental to bring in necessary changes within departments. Those with reservations on the issue cite reasons similar to those civil service management and staff responses supporting the status quo.
89. Specific issues raised in the responses on this topic include:
- The appropriate degree of decentralisation of pay administration and the future role of the centre in these matters
 - The recognition that pay delegation must fit within a wider program of devolving business and financial resource management, and HR responsibilities and flexibilities
 - The need for any move to decentralise pay and grading arrangements to be matched by the introduction of a transparent and competitive appointments and promotion system across the civil service.
90. Comments in the responses on implementation include:
- Support for pilot pay decentralisation, to test the feasibility and impact. Initial piloting might be appropriate with a selection of larger departments and/or one-line vote or trading fund departments
 - Support for the establishment of a central function responsible for addressing complaints and grievances, and for subsequently auditing departmental pay administration to ensure effective management and use of resources.

Departmentalisation of General/Common Grades

91. Approximately 155 submissions express views on the issue of departmentalising General and Common Grades staff. Again there are divergent views across the various stakeholder groups.
92. Just over half of the departmental management responses support this proposition, arguing that there would be benefits to effective resource management, particularly of junior staff and the clerical and secretarial grades. Those having reservations about this issue, however, feel strongly that the rotation of General/Common Grades staff under the current arrangements provides necessary broadening of experience, exposure to

good practices and new perspectives, together with a necessary check and balance on departmental management. They see these aspects as too important to lose. Most of these management responses recognise a significant concern regarding the lost career development opportunities for both Executive Officers and other General/Common Grades.

93. A significant majority of civil service staff group responses are against this idea. They argue the downside would be: loss of economies of scale associated with recruitment, training, and deployment; limited career prospects particularly in small departments; risk of redundancy when departments outsource, privatise or downsize; and eradication of the check and balance role of the General and Common Grades in departments.
94. Civil service union/association responses are generally divided on the issue.
95. Submissions from the General Grades/Common Grades largely oppose the idea. They think it would limit their future promotion prospects, deprive them of their career development opportunities, and limit the scope for flexible deployment for special tasks under a tight timeline (eg election activities).
96. Responses from the non-civil service parties and, in particular outside interest groups, support the idea, pointing out that departmentalisation of General Grades/Common Grades staff would be necessary to facilitate other changes in terms of greater departmental responsibility for pay and grading, performance review, and grade rationalisation in the civil service.
97. Specific issues raised in the responses for further consideration include:
 - The possibility of General/Common Grades staff, once departmentalised, transferring to departmental professional or technical grades, if the necessary academic and professional qualifications are obtained
 - The need to provide sufficient deployment planning and training to facilitate skills transfer
 - The scope for piloting the idea in clerical grades, then extending, if appropriate, to the wider General/Common Grades group.

Scope for amalgamation of existing grades within broader occupational categories

98. About 140 submissions give views on this issue. A majority of the responses are supportive of grade rationalisation, although the group responses from civil service staff are much more mixed in their views.
99. Over half of the departmental management responses and most of those from individual civil service managers see a definite scope for grade rationalisation and flatter organisations, as a means of enhancing efficiency and simplifying administration. Many believe there are numerous grades and ranks that have become obsolete over time, and that there is a dilution of grade/rank differentiation in many jobs.

100. In contrast, some group responses from civil service staff express concerns that reform in this area will lead to reduced promotional prospects for civil servants in general; threats to job security particularly for the middle and lower levels; and consequently an adverse impact on staff morale. Without any solid proposals, these responses suggest a need to review each grade carefully and consider each case for rationalisation on its own merits.
101. There are some concerns expressed in the disciplined services responses, which see a need to retain existing structures to reflect the specific nature of their work. They indicate, however, that there could be potential to streamline the civilian grades.
102. Most of the non-civil service responses are very supportive of the idea of simplifying the grades. They believe it will create more flexible and efficient departmental operations and reduce costs through elimination of unnecessary levels and headcounts.
103. Specific options for grade rationalisation proposed in the responses include:
- Amalgamating grades across the civil service with similar occupational or educational requirements
 - Adopting a job demand approach to grade and rank determination, based on the introduction of a job evaluation system.
104. Specific issues raised in the responses for further consideration include:
- The need to recognise that achieving flatter organisations and the amalgamation of grades and ranks are two distinct issues and therefore initiatives in these two areas should be conducted independently
 - Potential need to widen pay scales, if scope of responsibilities has been widened
 - The importance, in de-layering, to strike a balance between span of control and effectiveness.
105. Comments in the responses regarding the implementation of grade rationalisation include:
- The need to give greater autonomy on grading matters to departments
 - The importance of addressing staff concerns about downsizing and loss of career opportunities
 - The need for a review of departmental management structures to be first conducted before moving further down to lower levels, in order to gain buy-in and support from the staff.

Introduction of formal job evaluation system

106. About 120 submissions deal with this issue.
107. At least half of the responses from civil service management, individual civil service managers and staff, and from outside the civil service, indicate support for the introduction of formal job evaluation. Group submissions from civil service staff and those from unions/staff associations are more cautious about the idea.
108. Within those responses supporting job evaluation, there is an even balance as to whether the system should be centralised or not. Centralisation is supported largely for reasons of operational efficiency and expertise, internal relativity, transparency and fairness. Decentralisation of responsibility within central guidelines is supported, because it is thought that departments have a greater understanding of job requirements.
109. Some key suggestions from the responses include:
- Any formal job evaluation system should be administered by an independent body
 - It should be introduced in connection with simplification of the existing grades within broader occupational categories
 - If a decentralised job evaluation system is introduced, the Government should still have a role in setting the overall framework and guidelines, and performing a monitoring function.

Suggested Areas for Further Consideration in Phase 2 of the Pay Review

110. This section sets out our advice to the Task Force on the main aspects of civil service pay administration that we believe should be addressed further in Phase 2 of the Pay Review. Our conclusions are organised under the five key areas of research interest and take account of the relevant civil service pay arrangements and developments in the five surveyed countries and the views received during the public consultation.

Commonly adopted pay policies, structures and systems

The need for a major overhaul of the civil service pay policy and system

111. The surveyed countries, with the exception of Canada which has just embarked on more far reaching civil service pay reforms, have all undergone major, long term and arguably successful programmes of change to their civil service pay policies, structures and systems. Each country has had a different starting point and responded to different pressures and circumstances. In most cases though, changes have been part of and driven by a much wider agenda of public sector reform. Common underpinning factors have been the desire to create a stronger performance culture within the civil service and greater flexibility in ensuring the staffing needs of the civil service are appropriately met, and to enhance accountability and value for money.
112. Based on the responses to the public consultation, there appears to be limited support within the Hong Kong civil service for a major overhaul to the current pay regime, but tacit acceptance that there may be scope for more modest review and improvement. In the absence of a compelling case for change, responses from civil service staff groups and unions/associations see current arrangements as tried and trusted, and believe that any necessary changes should be progressively introduced over the long term so as not to disrupt the stability or morale of the civil service. In contrast, responses from outside interest groups are much more supportive of the need for a major revamp.
113. Based on the above, **we believe that while there is almost certainly scope to improve the pay administration of the Hong Kong civil service, further work is now required to make a considered determination of the degree and pace of that reform.** Specific issues we feel the Task Force may wish to address include:
- The scope and timing of wider public sector management reforms, which might have a bearing on the future direction of civil service pay administration
 - The strengths and weaknesses of current pay arrangements and their appropriateness to meet future requirements
 - The motivations of individuals for joining or leaving the civil service, and the importance of pay arrangements as a factor in their decision making

- The need to develop a compelling case for change and a pay reform vision, reflecting a comprehensive review of civil service pay policies and the key principles underlying them
- The need to develop a pay reform strategy and timeline, to deliver the pay reform vision
- The identification of areas of pay administration which require attention in the immediate term and for which interim solutions need to be devised.

Clean wage policy

114. The review and rationalisation of benefits and allowances has been a common feature in the surveyed countries, although these payments have generally been a less significant element in total remuneration than has been the case in Hong Kong. A clean wage policy has generally been welcomed by staff in the countries concerned, in that it gives them more freedom to spend their income as they wish and it has helped lower pay administration costs. Where allowances have been retained it is restricted to particularly difficult or unpleasant tasks, work in remote or expensive locations, where there are excessive work requirements or skills are in short supply.
115. The public consultation suggests that locally many civil service management group and individual manager responses support moves towards a clean wage policy, as providing administrative cost savings, reduced opportunities for abuse, and greater spending flexibility for staff. In contrast, most civil service staff and union/association responses have mixed views on this issue. Some fear that they will lose out if existing benefits and allowances are encashed or withdrawn. Responses from outside parties strongly advocate a clean wage policy to provide for greater transparency in civil service remuneration.
116. While there is an ongoing review of allowances, **we consider that there would be value in further work to set a more explicit policy on clean wages.** Specific issues the Task Force may wish to address include:
- The scope to accelerate or extend current initiatives to rationalise, consolidate or simplify existing allowances
 - The principles which should determine where it remains appropriate to retain allowances or target them more effectively
 - The best approach to introducing a clean wage policy.

Broad comparability with the private sector

117. In support of providing sufficient pay to attract, retain and motivate suitable staff, all the surveyed countries have tried to maintain broad comparability with the private sector, although the explicit linkage has in many cases been dropped. None of the countries seeks to lead the private sector, but they either look to broadly match (eg Singapore) or recognise a ‘public sector discount’ (eg the UK). A reduced focus on

formal pay comparability has led to some concerns that pay for the senior civil service in particular is now lagging the private sector by too great a margin.

118. From the public consultation, responses from both inside and outside the civil service largely favour retaining broad comparability with private sector pay, although some, particularly those responses from non-civil service parties, believe that the comparisons should be at occupational group rather than whole civil service level (as is the case with the existing pay trend surveys).
119. **Our conclusion is that while broad comparability is likely to remain a feature in pay determination, there is a need for further work to consider how this principle is best applied.** Specific issues the Task Force may wish to address include:
- The appropriate competitive positioning of civil service versus private sector pay (ie what broad comparability means)
 - Whether this positioning should be different for different occupational groups or levels of seniority
 - How broad comparability should weigh against other factors, such as affordability, in pay determination
 - How broad comparability can be achieved and maintained in practice, if there is perceived to be an existing significant gap between public and private sector pay.

Affordability to pay as an overriding consideration

120. Affordability has become a dominant feature of pay policies in the surveyed countries, reflecting the serious fiscal and public expenditure constraints they have had to deal with in recent years. A trend towards decentralisation of pay responsibilities to departments has reinforced the focus on ability to pay within overall budgets.
121. Responses to the public consultation from all parties in the civil service are largely against affordability as the overriding pay principle, fearing it is vulnerable to political pressure and wider economic factors. However, management groups and individual manager responses agree that it is one of the considerations in pay setting. Outside views on the subject are mixed, but the affordability principle is seen as a way of ensuring Government exercises proper financial discipline.
122. In the light of the present focus on public expenditure constraint in Hong Kong, **we believe that there would be value in the Task Force looking further at whether and how the principle of affordability should be applied in civil service pay determination and adjustment.** Specific issues the Task Force may wish to address include:
- The appropriate definition of affordability
 - The relationship between affordability and other factors such as private sector comparability

- The areas of the civil service where affordability might be particularly relevant.

Separate pay regime for the senior civil service

123. Distinctive treatment of the senior civil service is a feature in most of the surveyed countries. For example in those countries with highly devolved systems, maintaining a centrally managed senior civil service has been seen as an important way of maintaining the overall cohesion of the civil service and keeping the lid on the overall pay bill. In those countries with individual performance pay arrangements, the senior civil service typically has a higher percentage of their total remuneration at risk.
124. There are mixed views within the civil service responses as to whether senior civil servants should be treated differently. Some believe it is appropriate to reflect their greater responsibilities and increasing accountability, but some staff responses show concern about a widening pay gap and divisiveness if the senior civil service is treated differently. Responses from outsiders generally support different treatment, in part as a means of better aligning senior civil servants with their private sector counterparts.
125. **We consider the separate treatment of the senior civil service for pay purposes as worthy of further examination.** Specific issues the Task Force may wish to address include:
- The definition of the senior civil service
 - The extent to which the senior civil service should be treated differently for pay purposes, taking account of wider managerial and HR issues
 - The scope to use the senior civil service as a pilot group for introducing pay reforms
 - The need to develop a different pay review mechanism for this group to better reflect pay movements for comparable groups in the private sector
 - How to mitigate the risks of widening pay gaps and divisiveness, as raised by staff.

Treatment of the disciplined services

126. While there is no consistent model across the surveyed countries for handling the pay arrangements of the disciplined services or their equivalents, the general trend is to only provide separate treatment where the right to strike or take industrial action has been removed and/or where there is a perceived need to ensure that pay determination is independent of government or undue political interference. While this means that in practice separate arrangements have been retained for the police in most of the countries, many other disciplined service equivalents are managed for pay and other purposes in the same way as the broader civil service.
127. From the public consultation, responses from the disciplined services, and civil service managers in general, argue strongly for retaining different arrangements for the disciplined services because of the special nature of the work. Other civil service staff and union/association responses have more mixed views, although erring towards the separate treatment of the disciplined services. Some are concerned about the

divisiveness of separate treatment. Outsider responses largely support different arrangements for the disciplined services.

128. **We believe that there would be value in further reviewing the rationale and policy for separate pay treatment of the disciplined services.** Specific issues which the Task Force may wish to address include:

- The principles which should determine separate treatment
- The rationale for retaining the current arrangements for each individual disciplined service
- The extent of special considerations for those disciplined services justifying different treatment
- The practicality of linking other disciplined services to the rest of the civil service for pay purposes.

Experience of replacing fixed pay scales with pay ranges or other pay systems

129. All the surveyed countries have replaced fixed pay scales and automatic increments for their senior civil servants with flexible pay ranges. Those countries with devolved systems have also extended flexible pay ranges to most or all other parts of the civil service. Civil service management believe these reforms have been successful in enabling a fairer system of reward and a more performance-oriented culture. In contrast, staff and unions have shown resistance to change, arguing the move is divisive and countercultural. Overall the international experience is that the effectiveness and perceived fairness of flexible pay ranges depends critically on a comprehensive approach to performance measurement and management.

130. Locally, consultation submissions from both civil service managers and outside the civil service tend towards supporting a move away from fixed pay scales, to increase flexibility and reward performance rather than time served. Staff and union/association responses more strongly favour the status quo and some believe that better management of the existing increment system could also achieve an improved performance focus.

131. In the light of the above, **we believe that there would be value in exploring more closely whether and how flexible pay ranges should be introduced.** Specific issues the Task Force may wish to address include:

- Whether pay points should be retained or only minima/maxima set
- The practicality, as at least an interim measure, of strengthening the existing incremental system, to make progression more clearly performance related rather than automatic

- The scope for piloting the concept of pay ranges at the senior civil service level and for a small number of departments, linked to a performance pay element. If this works, extending it progressively across the civil service
- The pros and cons and options for introducing broadbanding.

Systems and mechanisms for determining pay levels and adjustments

132. All the surveyed countries, although to a lesser degree in Canada and Singapore, have moved away from highly centralised pay and wage determination and the use of a formula-based approach to pay setting. Individual departments now have greater delegated pay responsibilities, with affordability, achievement of performance goals, recruitment, retention and motivation of staff as key considerations. Collectively and individually negotiated agreements are also now a common feature, with pay trend surveys and pay level benchmarking with the private sector used to inform rather than dictate the pay adjustment process.
133. Most local civil service manager and staff responses view the current adjustment mechanism as fair, working well, and believe that it should not be replaced unless there is a better, proven alternative. However, many responses from outside interest parties have pointed both to flaws in the current formula and the absence of pay level surveys as having created a widening pay disparity between civil service and private sector jobs.
134. **We believe that there is now a need to explore more rigorously the options and recommend the most appropriate future pay determination and adjustment mechanism**, consistent with other proposed reforms in pay administration. Specific issues the Task Force may wish to address include:
- Whether there are useful interim improvements to the current mechanism which could be implemented in time for the 2003 review
 - The case for and practical approach to undertaking a pay level survey, in order to identify the extent of any reforms that may be needed to the pay review mechanism and establish a basis for any new pay structure
 - The level of autonomy, if any, which should be given to individual bureaux and departments in setting their own pay levels
 - The role that the central agencies – such as Civil Service Bureau and Finance Service and Treasury Bureau – should play in future pay determination
 - Whether the senior civil service and other selected groups should continue to be subject to central pay determination, even if there is a general move towards greater delegation of pay matters to departments.

Experience of introducing performance-based rewards

135. The introduction of performance-based awards has been a strong feature in overseas reforms and has been regarded as an important factor in raising performance standards within the civil service. In addition to flexible pay ranges, where progression reflects the level of individual performance, other performance-based award arrangements which have been implemented include individual performance bonuses, team-based rewards, and payments linked to economic performance (as in Singapore). Typically staff have not been required to put their existing base pay at risk and senior civil servants have a larger part of their total remuneration linked to performance than junior staff. A fair and consistently applied performance management framework has been seen as an important pre-requisite for the success of performance pay schemes.
136. The civil service responses to the public consultation offer mixed views on the issue of performance rewards. Around half of the civil service management responses, and many from outside interest group, favour the introduction of performance-based rewards to improve flexibility, motivate staff and reinforce a performance culture. There is less support for this idea among civil service staff responses and much less in those from unions/associations. They argue that it will be divisive and undermine morale. There are no clear views expressed on whether one form of performance-based rewards (eg individual vs team-based) would work better than another.
137. **Our view is that performance-based rewards is a potentially significant area of development worthy of further exploration.** Specific issues the Task Force may wish to address include:
- The appropriate scope and approach to implementing performance-based rewards to best fit local needs and circumstances
 - The effectiveness and robustness of existing performance management systems within the civil service and, as appropriate, the best route for ensuring a credible framework is in place
 - The use of the senior civil service as a starting point for piloting individual performance pay
 - The applicability of other forms of performance rewards within the Hong Kong civil service, such as:
 - individual performance bonuses
 - team rewards, which are currently being piloted in six departments
 - corporate rewards schemes, where staff are rewarded when the department as a whole achieves/exceeds agreed performance targets. (Such schemes currently exist in a modest form in some of the Trading Funds)
 - performance awards linked to the overall economic performance of Hong Kong
 - enhanced forms of non-cash recognition
 - The funding of performance rewards.

Experience of simplifying and decentralising pay and grading administration

Decentralisation of pay and grading responsibility

138. Some degree of decentralisation has been a feature of reforms in other countries. Freedom has been given to departments to manage their own pay arrangements, including policies and structures, to suit their needs and circumstances. This has facilitated a greater financial accountability and performance focus, but also raised some concerns about fragmentation of the civil service, inconsistency in pay arrangements for similar staff in different departments and barriers to career development and cross-departmental movement.
139. There are divergent views from the public consultation as to whether decentralisation would work in the Hong Kong civil service. While some manager responses would welcome greater resource and financial autonomy within central policy and parameters, more feel that Hong Kong is too small to justify highly decentralised arrangements. Some staff fear abuses if greater power is put in local managers' hands and are concerned about the possibility of pay disparity and reduced opportunities for career movement between similar jobs in different departments. Responses from outside parties tend to be supportive of greater decentralisation to enhance efficiency and accountability.
140. **We consider this is another important area for the Task Force to look at further in Phase 2**, as the degree of any future decentralisation will be a strong influence on the development of other aspects of future pay arrangements, eg a high level of decentralisation is likely to lead to a stronger focus on affordability in determining pay levels and adjustments, and may reduce some of the scope for grade rationalisation across the civil service as a whole.
141. Specific issues which the Task Force may wish to address include:
- The scope of any wider reform program to decentralise managerial or HR responsibilities, and the implications of this for pay delegation
 - The principles that should be applied to determine the appropriate degree of any decentralisation of pay administration
 - The future role and responsibility of central agencies in a more delegated system.

Grading reforms (including grade rationalisation, departmentalisation of the General/Common Grades, introduction of formal job evaluation)

142. Most of the surveyed countries have implemented major changes to grading arrangements, typically linked to delegation on grading matters to departments. Reforms include:

- Departmentalisation of general and common grades, other than at the senior civil service level
 - Introduction of broader occupational groupings and pay bands
 - Introduction of job evaluation or competency based approaches to assess job weight
 - Moving away from education qualifications as the determinants for grade and rank.
143. Locally, feedback from many civil service management responses suggests that grading reforms, including grade rationalisation, departmentalisation of general/common grades and introduction of job evaluation, would be welcomed to improve efficiency and resource management. Staff responses have more mixed views about change, some fearing reduced promotion opportunities and less job security. Job evaluation or equivalent approaches are, however, viewed by many responses from parties within the civil service as a fairer basis for setting internal relativities. More than half the union/association responses also indicate positive support for grade rationalisation and broader occupational categories.
144. **Our conclusion is that there is value in looking further at the scope for grading reforms**, recognising that this necessarily has to be closely linked to the wider consideration of pay administration delegation. Specific issues the Task Force may wish to address include:
- The scope to give greater autonomy on grading matters to departments, including the departmentalisation of the General and Common grades
 - The potential and options for introducing an integrated grade structure, based on a detailed analysis of existing families of grades
 - The case for job evaluation, or alternatives approaches, as a method of setting internal relativities and creating a rational and equitable grade structure
 - The scope for piloting job evaluation using one department (or the senior civil service) as a precursor to extending across the civil service.
145. In pursuing any changes, it will be important to address any staff concerns about potential loss of mobility and career opportunities.

Moving Forward

146. In the preceding section of this report we set out our advice to the Task Force on the broad agenda of pay reform issues and opportunities we believe it should examine further in the next phase of the Review of Civil Service Pay Policy and System.
147. In moving forward the Task Force now needs to determine the civil service pay and grading arrangements which will best suit Hong Kong's future requirements and circumstances. This assessment must take account of the strengths and weaknesses in current arrangements and an understanding of the Administration's wider intentions for civil service reform in key related areas, such as the broader delegation of HR and financial management responsibilities.
148. By their nature, many of the highlighted issues are linked or interdependent. As such we believe it is important for the Task Force (in conjunction with the Administration) to take a coordinated and holistic approach to exploring them further. More specifically, we would encourage the Task Force, at an early stage, to develop a high level, long term vision of the key principles and outline features of the civil service pay administration arrangements it believes the Administration should work towards implementing. Establishing such a vision, together with a broad implementation route-map, will provide a shared focus for interested parties on the future direction and reduce the risk of detailed reforms being tackled in a piecemeal way.
149. Clearly, it is not practical for the Task Force to examine and address in detail all the possible areas for change at the same time. From our wider experience we would therefore suggest the following broad, if overlapping, priorities for attention:
- Firstly, to review the mechanism for pay determination and adjustment. As well as looking at possible short term revisions to the current pay formula and adjustment process, this would involve consideration of:
 - the pay strategy that the Administration should adopt in terms of how it should position civil service pay in comparison to the private sector, in order to meet its HR policy objectives
 - how broad comparability, if appropriate, can be achieved and maintained in future
 - the role of affordability and other management considerations in setting pay levels
 - Secondly, to examine in detail how the current pay and grading structure should be rationalised and the best means of implementing any changes. This would include:
 - deciding on the degree of delegation of pay and grading responsibilities to departments and the central policies within which this devolvement would operate
 - reviewing and identifying the scope and approach to rationalising and simplifying the existing grade and rank structure

- deciding whether to move away from fixed pay scales and if so what the appropriate replacement structure should be and how it should be introduced
- exploring the use of job evaluation as a better basis for setting internal relativities
- developing a policy on clean wages and reviewing allowances accordingly
- Thirdly, to examine further the case for performance-based rewards and the best path for introducing these into the civil service. This would include:
 - exploring the feasibility of introducing individual performance pay and the most appropriate system for this, drawing on both wider public and private sector experience
 - identifying and evaluating other forms of performance-based rewards which might be introduced, eg team or departmental incentives, one-off bonuses, and enhanced non-cash recognition schemes
 - reviewing existing performance measurement systems to see how they need to be strengthened to support a performance-based rewards culture
 - piloting new performance rewards arrangements, before rolling them out across the civil service.

150. In its further work, the Task Force will need to give careful thought to the way that changes are best implemented. It is clear from the responses to the public consultation that winning the ‘hearts and minds’ of the civil service will be a key factor in ensuring the success of any reforms. This echoes the experience of the surveyed countries in implementing reforms to their civil service pay arrangements. Some of the valuable lessons from that wider implementation experience are summarised in Appendix B.

Conclusion

151. This report has set out our advice to the Task Force on those aspects of civil service pay administration reform which we believe are appropriate to explore further in Phase 2 of the Review of Civil Service Pay Policy and System. In forming our views we have taken account of our understanding of the context and development of the present civil service pay arrangements in Hong Kong, the experience of the surveyed countries in this area and the feedback received from the public consultation on the Interim Report.
152. We believe that this Pay Review represents an important, timely and exciting opportunity to make a comprehensive re-assessment of the pay administration regime best suited to the future needs of the Hong Kong civil service.
153. We do not underestimate the challenges now facing the Task Force. There are many options and considerations to be taken into account. At the same time, a strong message from the public consultation is that the civil service still waits to be convinced of the need for changing established and trusted ways of dealing with pay and grading matters. Setting out a compelling case for any change, and a high level vision of the principles and features which should underpin future arrangements, needs to be a priority task moving forward.
154. We look forward with interest to seeing the Task Force's final report on this phase of the Pay Review and wish it well in tackling Phase 2.

Appendix A – Summary of Interim Report Findings

Summary of General Lessons and Good Practice from the Research

- A1. While each country has evolved very different approaches to civil service pay to meet their specific needs, we have, nevertheless, identified some common themes and lessons from our research. Specifically:
- **Pay and grading reform cannot and should not be implemented in isolation from the broader civil service reform agenda.** For pay and grading reforms to be successful, complementary reforms are needed in a number of other areas, such as the broader delegation of human resource and financial management responsibilities. Development of supporting performance measurement and management frameworks is vital to ensure that pay and grading reforms can be applied fairly and consistently
 - **A long term view needs to be taken.** Implementing pay and grading arrangements typically requires a number of years, using a phased approach to reduce risk and to help build capacity within the civil service. Sustained top level commitment and support is crucial both at the political level and from the highest echelons of the civil service in order to maintain momentum
 - **Gaining buy-in and commitment to change from key stakeholders is critical.** Early consultation with civil service managers and staff is an important means of raising awareness about the need and options for change, overcoming concerns and anxieties, and benefiting from their thinking in shaping proposed reforms
 - **A major investment of resources is necessary** to build the capacity and commitment required to implement major pay reforms. Typical areas for investment include relevant training and skills development, communications, specific initiatives to shift mindsets and promote a performance culture, and the development of the supporting infrastructure necessary to ensure efficient pay administration, eg technology-based systems
 - **Making significant changes to pay and grading arrangements, within the context of wider reforms, inevitably involves pain as well as gain.** The path to achieving the benefits from new pay or grading arrangements is rarely smooth. Challenges and setbacks must be expected and allowed for. Staff resistance to any change from the status quo, a potential drop in morale and motivation among those staff who feel they have lost out under new arrangements, and securing the funding needed to implement proposed reforms, are some of the typical issues which may need to be addressed.
- A2. Having described these general lessons, we have grouped our more detailed findings on good practice under each of the five designated areas of interest.

Commonly adopted pay policies, structures and systems

A3. The common trends in pay policy in our five surveyed countries include:

- Devolution of more responsibility for pay policy and administration to individual departments and agencies
- A belief that in certain areas (eg equal opportunities) the civil service has a leadership role to play as a 'good' employer, with associated implications for pay policy, for example equity in pay arrangements from an equal opportunities perspective
- An emphasis on affordability (ie living within budgetary constraints) and paying appropriately to recruit, retain and motivate staff, with correspondingly less importance given to formal pay comparability with the private sector
- Ongoing efforts to link pay more closely to performance, through various forms of performance-based rewards
- A drive to replace rigid central systems with more flexible approaches including, for example, the consolidation of allowances and their absorption into base pay
- Providing separate pay arrangements only for those groups broadly equivalent to the Hong Kong disciplined services where special provisions apply (eg where the right to take industrial action has been removed). As a consequence, many of these equivalent groups in the selected countries are in practice treated in the same way as any other department or occupation within the civil service or broader public sector.

Experience of replacing fixed pay scales with pay ranges

A4. All five of the countries we surveyed have replaced fixed pay scales (with automatic time-based increments) for their senior civil servants with more flexible pay ranges. Some countries have gone further and extended the use of flexible pay ranges to most or all of their civil service. Typically a minimum and maximum salary is specified for each pay range, but then considerable flexibility is allowed for individuals to move through the pay range based on performance.

Systems and mechanisms for determining pay levels and adjustments

A5. Each of the five countries, to varying degrees, has taken steps to decentralise the determination of pay levels and adjustments to individual departments and agencies. This has resulted in a general move away from a central, formula-based approach to pay determination for most countries. Affordability within budget constraints, achievement of performance goals, recruitment, retention and motivation of staff are now the primary consideration, rather than formal comparability with the private sector. Pay trend and level surveys are more typically used to inform collective and individual agreements within set negotiating parameters, rather than to dictate pay adjustments.

A6. As a consequence the role of the central agencies has changed with more emphasis on setting the overall policy framework and providing advice, rather than having a direct involvement in setting pay levels.

Experience of introducing performance-based rewards

A7. A common thrust in all the countries surveyed has been efforts to link pay more closely to performance, especially for senior civil servants. In addition to the flexible pay ranges already described, other performance related reward arrangements that have been implemented elsewhere include:

- Individual performance bonuses – both “one off” and incorporated into basic pay
- Team-based performance pay, which is less common and typically associated with achieving set performance targets, or completing a particular task or project.

A8. Much of the emphasis to date on performance-based rewards has been focused on senior civil servants partly because of the importance of motivating and rewarding this group, and partly because they generally have more discretion and control over their work. The proportion of senior civil servant remuneration that is now performance-based and ‘at risk’ varies considerably between countries. The Singapore Government has gone furthest with an average of some 40% of senior officer remuneration now paid on the basis of individual performance and overall economic performance.

A9. Two critical success factors in introducing performance-based reward schemes appear to be the development of a credible and robust performance management framework, and the provision of adequate funding to support effective differentiation between average and outstanding performance.

Experience of simplifying and decentralising pay and grading administration

A10. As described above, all of our survey countries have, to varying degrees, devolved their pay arrangements to individual departments and agencies, operating within a centrally determined policy framework. However, whilst certainly contributing to some significant improvements, devolution has also created some important challenges that need to be recognised and managed, particularly against the backdrop of a perceived fragmentation of the civil service.

A11. Most of the countries we surveyed have also implemented major changes to their grading arrangements. Common features include the following:

- Departmentalising General Grades personnel
- Creating flatter, less hierarchical management structures, through rationalisation of the number of ranks and the number of pay ranges
- Combining occupations into broad staff groupings for the purpose of grading and human resources management

- Establishing formal job evaluation systems and procedures for assessing relative job weight and ranking
- Growing away from educational qualifications as the primary determinant of rank or grade.

Implications for Hong Kong

A12. It was not the remit of the Interim Report to put forward specific recommendations. However, we believe that based on the experience of our five surveyed countries and taking account of the current issues and challenges facing the Hong Kong civil service, **all five key pay and grading areas of interest, as highlighted in our brief, are worthy of further, more detailed consideration.** Specifically there would be value in the Hong Kong civil service:

- Undertaking a more far reaching review of their pay policies and the fundamental principles underlying them
- Examining further whether flexible pay ranges should be introduced
- Reviewing the current mechanisms for determining pay levels and adjustments
- Exploring the scope for a more performance-based approach to pay and rewards
- Examining the scope for further delegation of responsibility for pay and human resources management to individual Departments.

High Level Overview of Civil Service Pay Arrangements in the Selected Countries

A13. In order to provide a quick appreciation of the civil service pay arrangements that have developed in each of the surveyed countries, we have prepared a very brief, tabular guide (see overleaf). The guide is organised around the five key areas of interest specified by the Task Force. We hope it paints a useful picture against which the main findings of the research can be considered.

A14. Inevitably in producing such a short summary we have had to make some very broad generalisations and simplifications of the detailed arrangements in each country. As such it should be read with some caution. To avoid possible misunderstanding or misinterpretation we suggest that readers should also look at the fuller details on each country, as set out in our Interim Report.

Appendix B – Lessons from Overseas Experience in Implementing Pay Administration Reforms

- B1. The experience of the surveyed countries in implementing major reforms to their civil service pay administration highlights a number of important lessons for managing a smooth and successful transition. We briefly summarise these below, as we believe they are of relevance to the Hong Kong situation.
- **Find compelling and credible reasons for change** and then actively and continuously communicate and sell the benefits of change. The feedback from the public consultation reinforces the importance of this in getting ‘buy-in’ from staff to pay reforms.
 - **Have a clear vision** of the end result and remain focused on achieving it.
 - Recognise that **changes to pay structures and systems will often depend or be driven by wider managerial and HR reforms** in the civil service.
 - **Take an evolutionary approach** mapped to a consistent and well communicated programme of reform, in order to provide reassurance and focus rather than creating uncertainty. For example, in New Zealand a “big bang” approach was initially adopted because they were in a period of crisis. They are now taking a more considered look at what changes should be retained, what needs to be reined back, and what may require further moderation.
 - **Establish a realistic timeframe** that maintains momentum, at the same time allowing for consolidation and avoidance of change fatigue.
 - **Ensure there is sufficient depth of expertise** and the necessary skills internally to carry forward changes and, as appropriate, the requirement for external assistance to aid the process.
 - **Don’t commit to change which in practice cannot be delivered** effectively or be sustained. For example the UK has experienced some difficulties with its performance pay arrangements for senior civil service as it finds that in practice it is unable to fully fund performance pay awards.
 - **Proactively looking for trade-off opportunities** – eg choice for staff to opt in or opt out, of proposed changes - so that staff feel they had some involvement over the decisions that affect them.
 - **Have the courage to take hard decisions** where necessary in order to stay on track. Examples include increasing the level of “at risk” pay for senior staff, or devolving responsibility and accountability beyond previous levels of comfort. There needs to be a willingness to change the fundamental infrastructure as marginal change is unlikely to lead to substantial change or benefit.
 - **Encourage the active participation of staff representatives** in the design of pay reform initiatives. This can help to facilitate the implementation process, and raise awareness of potentially damaging issues early on.
 - **Be sensitive to the strength of staff feeling** and the aspects of change which legitimately require significant consultation and involvement.

- **Ensure education, training and communication is proactive and ongoing** to help new behaviours and actions to become institutionalised within the civil service. Most of the surveyed countries were considered to have stopped these activities too early.