

## **CHAPTER 5**

### **REPLACING FIXED PAY SCALES WITH PAY RANGES**

(This chapter sets out the Consultant's findings, the consultation feedback and the Task Force's views in relation to replacing fixed pay scales with pay ranges)

#### **Introduction**

5.1 For many years, Hong Kong has adopted a system of civil service pay scales with fixed annual increments. At present, there are a total of 13 pay scales (Appendix IX) applicable to different grades in the civil service. An officer is granted an increment annually until he reaches the maximum point applicable to his grade and rank. Theoretically, an increment may be withheld on account of unsatisfactory performance, but in practice, such cases are rare.

#### **Experience in Surveyed Countries**

5.2 In the Consultant's Interim Report, it is pointed out that all five of the comparator countries have replaced fixed pay scales (with automatic time-based increments) with more flexible pay ranges for their senior civil servants. The countries that have substantially delegated pay management responsibilities – the United Kingdom, Australia and New Zealand – have also extended the use of flexible pay ranges to most or all of their civil service. Typically, a minimum and maximum salary are specified for officers in a particular rank or band. Progression through the range is normally based on performance (i.e. no automatic increment) and considerable flexibility is allowed for officers to move within that range<sup>1</sup>

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<sup>1</sup> Consultant's Interim Report, Page 20

(e.g. fixed pay points with staff receiving 0, 1, 2 or even 3 pay points depending on performance).

5.3 The experience of the five surveyed countries in implementing flexible pay ranges has been diverse. The governments and senior officials in these countries generally believe that the introduction of pay ranges to the civil service has been successful, particularly in enabling a fairer system of reward (i.e. based on merit and not just time served) and encouraging a more performance-oriented culture. However, there has been, and continues to be, resistance to this approach from trade unions and staff who see the use of pay ranges as potentially divisive and counter-cultural.<sup>2</sup>

5.4 Experience in the surveyed countries also shows that the effectiveness and perceived fairness of flexible pay ranges depend critically on a comprehensive approach to performance measurement and management.

### **The Hong Kong Experience So Far**

5.5 Hong Kong has no experience in more flexible pay ranges. Because of the extensive use of uniform pay scales with fixed annual increments, our civil servants have been long accustomed to a very rigid and time-based reward culture. Performance tends to be rewarded outside the pay scale by means of promotion.

### **Results of Public Consultation**

#### ***General views on flexible pay-range system***

5.6 Some of the responses from the management of civilian departments are in favour of the flexible pay-range system. They see benefits in terms of helping to motivate staff (particularly those who have reached the maximum of the pay scales), enhancing a performance-oriented culture and creating flexibility in pay in response to market trends.

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<sup>2</sup> Ibid., Page 21

5.7 The management of other civilian departments who do not favour the system are more skeptical. They worry that with the introduction of performance-pay elements, short-term goals aimed at yielding quick returns will take priority over long-term objectives of the departments, affecting adversely the quality of service in the long run. Other anticipated implementation problems include “difficulties in managing a complicated pay system”, “insufficient market knowledge of civil servants to turn the system into an effective management tool”, “fostering of a flattery culture (some call it a ‘shoe-shining’ culture) and favouritism” and “less effective team work due to individual members competing for more pay”. It is perceived that before the advantages of the system can be realised, more resources will have to be put in developing a performance management system and in training staff ahead of changes. If there are not sufficient resources to reward deserving staff and merit increments are too small to differentiate performance, the idea is not worth pursuing.

5.8 The overwhelming majority of responses from the management of disciplined services also do not support the system. Apart from sharing the views mentioned in the above paragraph, they stress that given the uniqueness of the disciplined services, measures which otherwise apply to the private sector and civilian departments should not apply to them.

5.9 Some respondents from the staff sides of the civil service do not support the system. They consider that performance in most civil service jobs is difficult to quantify and measure in an objective way, and the system may give rise to many management problems, such as complaints and disputes over the fairness of appraisals. They express concern over the “difficulty in measuring the performance of an individual who works on a team basis”, the “possible divisiveness among civil servants”, the “aggravation of a flattery culture”, and the “disparity in pay for similar posts in different departments”. There is also concern about fairness of the system as some staff who have no choice in their posting are denied the varying opportunities offered by different jobs for demonstrating individual capability. They feel that a new system may not

be necessary since the existing performance management system can be enhanced to ensure that increments and promotions are well justified.

5.10 Some of the responding non-civil service organisations and non-civil service individuals are supportive of the flexible pay-range system. They consider that the current fixed pay-scale system with annual increments are primarily time-based rather than merit-based, and the award of increments adds to staff cost regardless of the economic condition and affordability. From their point of view, the pay-range system would help foster a stronger performance-oriented culture.

5.11 A few articles in the press have also commented on the flexible pay-range system. Some are supportive of the system as it would provide incentive for civil servants. There are, however, dissenting views that implementing pay ranges will only complicate the pay system as, in the absence of adequate transparency, a flattery culture may be encouraged, causing damage to staff morale as a whole. The existing fixed pay-scale system already has the built-in flexibility of not granting increments to non-performers.

5.12 Apart from changing to a flexible pay-range system, some feedback indicates that other measures may also be adopted in nurturing a performance culture. Examples are additional increments for outstanding performers, performance-based rewards such as annual performance bonus in addition to fixed pay scales, and free travel passage. Some consider that performance management tools not directly linked to pay may be applied through education, training, promotion and an exit system to remove non-performers.

#### *Views regarding application of the system to directorate / senior staff*

5.13 From the consultation feedback, opinions vary as regards the levels in the civil service to which pay ranges should apply. Some believe that civil servants at all levels should be subject to the same pay regime to ensure fairness and to avoid potential divisiveness. However, some respondents in the civil service and some non-civil servants suggest that the Administration should pilot the concept in the senior civil service. It is generally believed that senior civil servants, with heavier management

responsibilities, have influence and choice over what they do, whereas junior staff must follow instructions from senior staff and are typically in a more reactive position.

5.14 In the consultation with directorate officers, they express concern about the possibility of subjecting pay negotiation/settlement to public scrutiny. They believe that in the end, the system will not work since, under the pressure of public scrutiny, all officers will likely be awarded equal remuneration. The question is, therefore, whether pay should continue to be transparent when flexible pay ranges are introduced.

#### *Views regarding application of the system to disciplined services*

5.15 While not many respondents comment on whether the pay-range system should apply to the disciplined services, the overwhelming majority of the responding disciplined services, from both the management and the staff side, are not supportive of the idea. The reason given is that the nature of law enforcement is reactive to occurrences which are not within the control of the staff who are responsible for the enforcement. To try to quantify output as the basis for assessing and rewarding performance would be misleading. They emphasise that considerations unique to the disciplined services should be taken into account.

### **The Task Force's Views**

5.16 As we have discussed in Chapter 2, the present fixed pay-scale system has, over many years, provided civil servants in Hong Kong with an expectation of steady pay progression. The rapidly changing socio-economic and political circumstances, however, have called for the modernisation of the system. The Government has to demonstrate to the public that civil servants are paid according to their performance, instead of adhering to a rigid regime that rewards performers, under-performers and non-performers indiscriminately. In this regard, the introduction of pay ranges is consistent with our vision of a more flexible system that provides discretion to managers and incentive to staff, and that is conducive to a performance culture with emphasis on ownership of responsibility (see paragraphs 3.2(c) – (e) and 3.4). The subject is also

related to performance pay and the issues discussed here should be considered together with the chapter on that subject (i.e. Chapter 7).

5.17 In the course of consultation, many respondents express concern over the practical difficulties in measuring staff performance in some civil service jobs. We agree that there are good grounds for this concern, as experience from the five surveyed countries indicates that the effectiveness of flexible pay ranges relies critically on the following good practice<sup>3</sup> –

- (a) establishing clear linkages between overall government objectives, Departmental/Agency objectives and targets, and individual objectives and targets;
- (b) requiring civil servants to prepare and agree with their supervisor a personal performance plan or contract, against which their subsequent performance will be assessed;
- (c) placing considerable emphasis on developing robust and comprehensive performance measures, recognising that many aspects of public sector performance are difficult to measure in practice;
- (d) developing more sophisticated staff appraisal techniques; and
- (e) ensuring that processes are in place to handle poor as well as good performance.

5.18 We believe that it is essential that any effective pay-range system should be supported by an objective and fair appraisal system with adequate checks, and measurable indicators, which are not too complicated to operate. There should be good checks and balances in the system to enhance staff confidence and to prevent possible abuse of the system. The framework of the system should be perceived as transparent and equitable to all stakeholders.

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<sup>3</sup> Ibid., Page 21

5.19 Taking into account the fact that much of the concern about a flexible pay-range system focuses on the operational constraint, and potential abuse, while the intrinsic merits of such a system are not particularly questioned, and in the light of the Consultant's findings on overseas experience, we consider that the system, if properly designed and implemented, can bring benefits to performance management, especially for the senior staff. Under such a system, it will be easier for the pay levels of some civil service jobs to be adjusted in accordance with corresponding market trends. This would avoid triggering unnecessary intra-civil service adjustments simply on grounds of maintaining historical internal relativities which may be difficult to justify in present circumstances.<sup>4</sup> The question of pay transparency will also have to be addressed.

5.20 Notwithstanding the above, we do not think a pay-range system should be relied upon as the sole contributor to enhancing a performance-oriented culture. As suggested by the consultation feedback, management tools such as education, training, promotion and an exit system to remove non-performers are also effective measures to nurture a performance culture. We would add that other work characteristics, such as a sense of accomplishment, challenging work, job security, personal growth and recognition are also important elements in nurturing a performance culture.<sup>5</sup>

5.21 We recommend that the feasibility of implementing flexible pay ranges should be further explored in Phase Two of the review. The existing performance appraisal system, a component which is fundamental and the pre-requisite for an effective flexible pay-range system, should be reviewed. The possible management problems and implementation difficulties raised by interested parties within and outside the Government should be examined in greater detail. Where necessary, stakeholders

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<sup>4</sup> Anthony B. L. Cheung. "Moving into Performance Pay for Hong Kong Civil Servants: Conceptualization and Implementation Problems", in *Public Administration and Policy*, September 1999. Page 20

<sup>5</sup> Ibid., Page 16

should be involved in the process of designing a system that is acceptable to both the civil service and non-civil service sectors.

5.22 After a satisfactory performance appraisal system has been designed and fully tested, consideration should be given to introducing pay ranges only to senior civil servants at the directorate level as a pilot scheme. In the light of such experience, further extension can be considered. The MPS and its application should be reviewed to bring them more in line with private sector practice. Fine tuning adjustments, such as breaking up each pay point into smaller components and authorising management to reward outstanding performance by granting more than one pay point, can be explored.

5.23 In parallel with the consideration to review the existing performance appraisal system, we would also suggest to explore feasible measures that may be taken to help change the mindset of civil servants towards more flexible pay progression. As with any other part of the reform, every step towards consideration to change to pay ranges should be taken in full consultation with all parties concerned. Incumbents' recognition of the advantages of the system will be essential to move towards a modernised civil service pay system that can discriminate between performers and non-performers, and reward or sanction accordingly.

## **Directorate Level**

5.24 We consider that after a satisfactory appraisal system has been developed and fully tested, a pilot scheme on flexible pay ranges (e.g. allowing for manoeuvring within minimum and maximum points) may be introduced at the directorate level in a few departments.

## **Disciplined Services**

5.25 In view of the unique work nature of the disciplined services, we agree that, in the context of flexible pay ranges, this group of civil servants warrant separate consideration. After assessing the results of pilot schemes, further consideration may be given to whether (and, if so, how) the system should be extended to the disciplined services.