

## CHAPTER 8

### SIMPLIFICATION AND DECENTRALISATION OF PAY ADMINISTRATION

(This chapter examines the experience on decentralisation of pay administration and discusses the pros and cons of introducing similar practice to Hong Kong. This chapter also briefly touches on the scope for simplification)

8.1 One of the five main areas the Task Force has been asked to review is the experience on simplification and decentralisation of pay administration. In painting a vision of the civil service pay system going forward in Chapter 3, we discussed how the concept of empowerment/ownership should form an integral part of the vision. We believe that the decentralisation of pay administration, as part of a broader civil service reform which aims at devolving management responsibilities to improve service delivery efficiency, should be considered as a target in the longer run.

#### **Experience of Decentralisation in Surveyed Countries**

8.2 In the Consultants' Interim Report, it was pointed out that "a key, long term thrust of civil service pay reform in survey countries (and indeed, in many other countries) has centred on decentralising more responsibility for pay policy and administration with the objective of improving flexibility, accountability, overall performance and efficiency."<sup>1</sup> Australia, New Zealand and the United Kingdom have devolved most pay administration responsibility to individual agencies and departments, within certain centrally determined parameters and guidance. Singapore

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<sup>1</sup> Consultant's Interim Report, Page 16

and Canada have also given more autonomy and flexibility to departments, but they have retained more centralised control.

8.3 All five countries surveyed have, meanwhile, continued to centrally manage most or the entirety of their senior civil service for pay purposes and for broader human resource management.<sup>2</sup>

8.4 The Consultant has also observed that “whilst certainly contributing to some significant improvements, devolution has also created some important challenges that need to be recognised and managed, particularly against the backcloth of a perceived fragmentation of the civil service”.<sup>3</sup> The issue is therefore, a most complicated one of striking the right balance.

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

8.5 In the case of Hong Kong, the Task Force’s Interim Report has pointed out that, for the sake of operational efficiency, system transparency and upkeeping of internal relativity, pay administration has always been centrally managed by the Civil Service Bureau, on the advice of advisory bodies. New headway in the direction of decentralisation was only made in 1999-2000 when Heads of Departments and Heads of Grades were authorised to recruit non-civil service contract (NCSC) staff and determine their pay to help meet the temporary shortfall in manpower.<sup>4</sup>

8.6 In the mid-1990s, within the context of “Public Sector Reform”, the concept of “Trading Funds” was introduced in five government organisations. Their managers are authorised to manage their financial resources along commercial practices but Civil Service Pay Scales have continued to be used for remunerating staff.<sup>5</sup>

8.7 Since 1999-2000, the Administration has progressively introduced a “One-line Vote Arrangement” in 23 departments. The

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<sup>2</sup> Ibid., Page 16

<sup>3</sup> Consultant’s Final Report, Page A3

<sup>4</sup> Task Force’s Interim Report, Page 18

<sup>5</sup> Ibid., Page 19

Controlling Officers of these departments are given autonomy and flexibility in deploying funds between the various components of expenditure. However, central pay and establishment controls continue to apply to these one-line vote departments.<sup>6</sup>

8.8 The “decentralisation” introduced in Hong Kong so far is no comparison to those taking place in the countries surveyed. Here, the Administration has been extremely cautious in venturing into the pay arena in its recent efforts of “decentralisation” as any such initiative would impact on the established civil service pay administration policy and mechanism. We understand it is the Administration’s belief that it would not be appropriate to change such policy and mechanism without going through a major review and a consensus-building process on the best way forward.

### **Results of Public Consultation**

8.9 The mixed results obtained from the public consultation since the release of the Task Force’s Interim Report show that the Administration’s cautious approach mirrors the wide range of views which exists at this point in time as to whether decentralisation of pay administration fits Hong Kong’s situation.

8.10 Some civil service managers are in favour of having more human and financial management resources placed under their control as a result of decentralisation of pay administration. The Consultant has also confirmed that these managers believe it is possible to delegate the authority to departments within broad, central guidelines and parameters to best meet local needs. However, other managers believe that Hong Kong is too small to justify highly decentralised arrangements. They are concerned that decentralisation may create additional administrative burden, distract them from performing the department’s core functions and lead to the loss of internal relativities when staff with similar experience and skill are paid differently in different departments under a fragmented pay system. This,

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<sup>6</sup> Ibid., Page 19

they worry, might result in unhealthy competition between departments for resources.

8.11 Some departmental managers are skeptical about achieving greater autonomy under the pretext of decentralisation. They pointed out that departments would still have to operate their pay system within a centrally determined policy framework, subject to strict affordability and budgetary constraints, leaving them with very limited flexibility in determining pay.

8.12 Other concerns expressed include “the lack of resources and expertise in pay administration”, “the fragmentation of pay scales”, “the problem of internal relativity”, “inconsistency”, “endless pay-related disputes and staff appeals”, “loss of economy of scale”, “straining of relationship between management and staff” and “effect on the overall coherence of the civil service in terms of common purpose and values”.

8.13 The majority of the responding civil service staff bodies have also expressed reservation. Some consider that the current pay administration practice has worked well and any change would create internal conflicts between staff and management. Having seen what happened in the countries surveyed, staff unions are also worried that their bargaining power over pay level and pay adjustment might be affected. Yet others are worried about abuse of power by senior staff in the departments when pay administration is decentralised.

8.14 A minority of the responding disciplined and civilian staff bodies, on the other hand, consider that there are merits in decentralising pay administration. It will enable departments to recruit according to need and to reward their staff on a fairer basis, having set the pay system to better suit the demand of individual departments. However, even staff bodies which see the “brighter side” of decentralisation are aware of the difficulties associated with the idea. Hence, they advocate a very gradual approach; for instance, conducting trial runs on non-core grades or trading funds’ staff by allowing the departments which hire them to give additional increments, benefits, or extension of contracts. The central authority

should, in the meantime, continue to issue broad guidelines within which departments can devise a reasonable pay system best suited to their needs.

8.15 The same divergence of views is present in the submissions of individual civil servants. Some object to the idea of pay decentralisation, with reasons very similar to those already mentioned. Others support the idea, echoing what has been observed overseas in that decentralisation may empower departments “to appoint and develop people with the skills necessary in a rapidly changing environment”.<sup>7</sup> Once again, a cautious approach has been suggested. There is also general agreement that the central authority should maintain some control by setting pay ranges and providing avenues for appeal etc.

8.16 Views expressed in the non-government sectors are equally divergent, although the distance between the two poles is considerably less. Apart from observations on the merits and demerits of decentralised pay administration, some regard the move a pre-requisite for introducing performance pay, whilst others suggest that departmentalisation of some common and general grades should be introduced in unison. But all caution that any moves in these directions should not be embarked upon in haste.

8.17 Very similar views have been expressed in press articles, with some pointing out that whilst overseas experience can be useful reference materials, Hong Kong’s situation is not entirely the same as those countries surveyed.

### **The Task Force’s View**

8.18 We have been extensively briefed on views expressed on this issue. Our attendance at public consultation sessions has proved to be very fruitful. Members have debated the issue thoroughly at the Task Force’s regular meetings and brainstorming sessions. We have also discussed with the Consultant their findings and observations on how decentralisation fared in the countries surveyed, paying particular attention to the shortfalls,

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<sup>7</sup> Consultant’s Interim Report, New Zealand Country Summary, Page vii

criticism from stakeholders and difficulties encountered during the long periods of time required for implementation. All indications point to the complexity of the issue and the need to tread very carefully on this area of study.

8.19 We agree that there are merits in decentralising pay administration as part of the devolution of human resources management. This will empower managers to better manage staff resources according to the specific needs of their departments, allow them to recruit and retain staff outside the main stream pay scales, permit them to better reward good performers and sanction non-performers, etc. However, the Task Force is also fully aware of the need to address legitimate concerns expressed by critics and doubters.

8.20 Overseas experience on decentralisation varies according to country circumstances, but some degree of decentralisation of pay administration has been a common feature of reforms. Though not entirely without problems (e.g. fragmentation of the civil service, inconsistency in pay arrangements for similar staff in different departments, barriers to cross-posting etc.) departments have been given freedom to manage their own pay arrangements to suit their particular needs.<sup>8</sup> Such freedom, if exercised responsibly and within some necessary government-wide parameters, can contribute towards having better-run departments, more motivated and accountable staff and better delivery of public services.

8.21 The idea should therefore not be lightly dismissed, nor the benefits which decentralisation of pay administration might bring be allowed to be buried under the doubts and criticisms expressed so far. A more constructive attitude would be to recognise both the merits and constraints of decentralisation, and to find ways and means to overcome practical problems identified.

## **Timeframe**

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<sup>8</sup> Consultant's Final Report, Page 31

8.22 We would therefore recommend to the Administration that decentralisation of pay administration be adopted as a longer term target, to be looked at in greater depth, together with the challenges decentralisation might bring. It will be up to the Administration to consider what parts of the pay system can be further decentralised, and in what timeframe.

### **The Way Forward**

8.23 We would like to propose a staged approach.

8.24 Stage one should form part of Phase Two of this review. Factors which have led some departmental management and staff to express reservation should be examined in greater detail, engaging in discussion once again with those who have so expressed their views in the process. Attempts should be made to explore with these stakeholders to convince them that with the obstacles removed and necessary assistance given, a decentralised pay system can empower them to run their departments better.

8.25 The detailed examination will also look at the relationship between decentralisation of pay administration and other aspects of civil service that need to be reformed. We should also examine the experience gained from pay arrangements applicable to NCSC staff, and the effects such may have on incumbent staff and departmental operation.

8.26 What further needs to be looked into is the relationship between central administration and departmental management when pay administration is decentralised, for instance, the extent departments should operate within the centrally determined fiscal conditions.

8.27 Finally, the possibility of engaging the main staff side bodies and staff unions in designing such a decentralised pay administration system should also be considered.

### **The Next Stage**

8.28 We are confident that the findings of the detailed examination will show that the obstacles and reservations can be overcome by

complementary reforms and changes in other areas of the civil service system. The next stage is to consider obtaining “buy-in” from the stakeholders, particularly from staff who are used to a centrally determined, formula-based pay system. It will be necessary to demonstrate how a more flexible pay system can help departments operate better in delivering quality service to the community as well as bringing more job satisfaction to those delivering the service, in an environment manned by motivated colleagues.

8.29 The next area to be considered would be the support to management through training. It is obvious from consultation feedback that doubters of decentralisation consider themselves somewhat lacking in human resource management expertise. Some would rather concentrate on delivering the department’s core service than being responsible for managing the departments’ pay system. We need to identify the assistance that can be given to those who wish to try out a more flexible pay system. To what extent can the lack of expertise be overcome by training or by the injection of resources? How can outside expertise assist in the first few years, bearing in mind that this was a route taken in the countries surveyed?

8.30 We believe that even in the stages of detailed examination and fact-finding, it is vital that management and staff should be given the assurance that decentralisation of pay administration is not only an initiative involving a long lead time, but that it will not be imposed on them. In other words, there should be flexibility whereby some departments which are managerially and culturally ready for decentralisation can opt for the devolved system while others which would prefer a longer waiting time can stay on the existing track with more centralised control.

8.31 We would like to suggest that every effort should be made to convince both the management and staff sides that decentralisation is worth trying out and that voluntary pilot schemes will be considered. The central administration should have to support and monitor the scheme closely, to the extent of shouldering additional costs or seconding additional staff to assist. The number of pilot projects may be few in the first phase of trial. The important thing is experience accumulation and lesson learning.

## **Simplification of Grade Structure**

8.32 Turning to simplification of grade structure, we notice that the majority of consultation feedback do not object to the concept of layering in order to improve efficiency and save costs. If implemented properly, this would be an important initiative to achieve savings, through the reduction in administrative cost as a result of the simplified structure, with relatively less pain to the staff involved. This will also help to install a sense of cost-effectiveness in the departments concerned.

8.33 However, as in the case of decentralisation, the issue has to be treated carefully. The following areas have to be closely examined in Phase Two of the review before any step in this direction should be taken –

- (a) the scope for simplification;
- (b) how present ranks can be layered without affecting productivity and staff morale;
- (c) whether layering could be implemented together with pay ranges and performance-based pay to better reward the performing staff, given that promotion might become a less feasible incentive in periods of consolidation or slow expansion particularly as layering takes place;
- (d) whether departmentalising common and general grades would strengthen loyalty to the host department, enhance training, help retain experience and yet maintain adequate flexibility in staff deployment; and
- (e) the need for regular job evaluation.

## **Directorate Level**

8.34 We would like to suggest that like all the countries surveyed Hong Kong should continue to centrally manage senior civil servants at directorate level for pay purposes. Overseas experience has shown that this approach is an effective way of maintaining a ceiling on public sector pay

levels and safeguarding the cohesiveness of the civil service, while allowing for staff mobility between departments at the most senior level.

### **Disciplined Services**

8.35 We would suggest that separate consideration should be given to disciplined services, in the light of their operational needs, as regards whether decentralising pay administration would be beneficial. The matter can be considered after allowing time for the perceived difficulties to be worked out in the next stage of the review.

8.36 We look forward to the further examination of the issues of decentralisation of pay administration and simplification of grade structure in Phase Two of the review, with due regard to those considerations we have outlined above.