

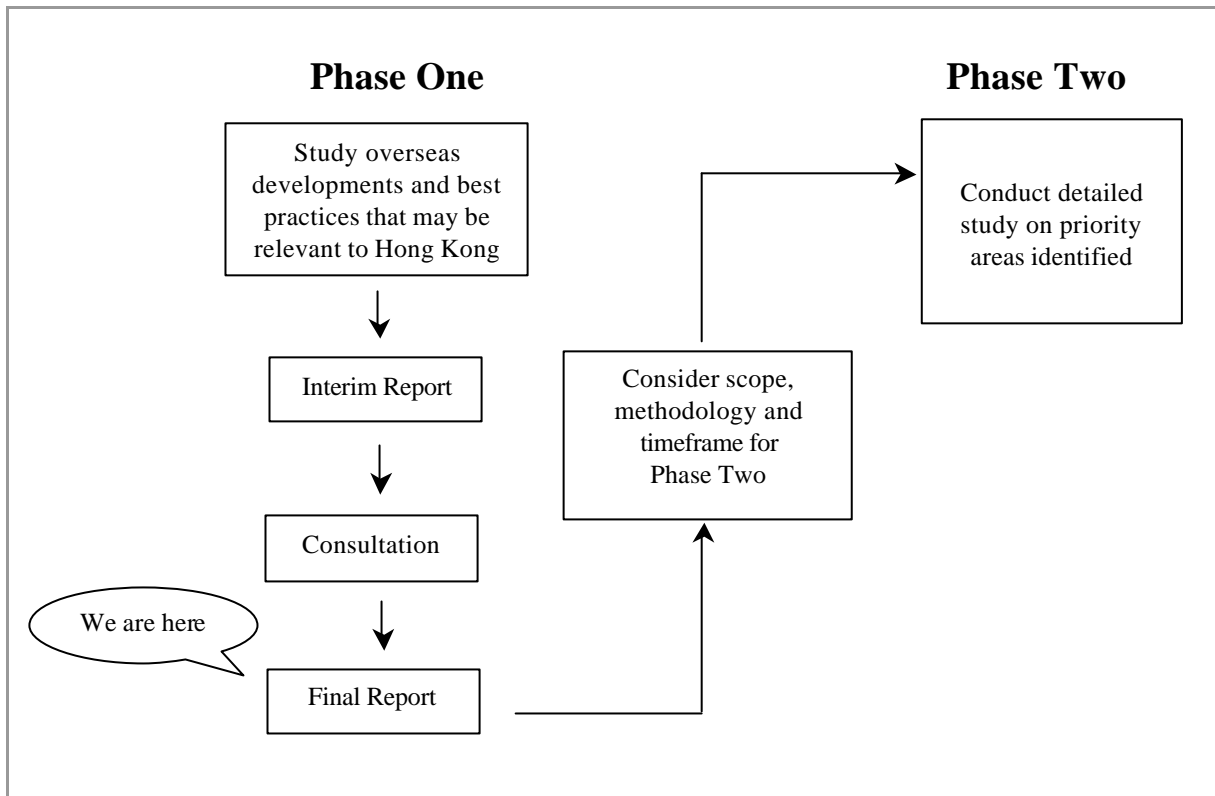
# EXECUTIVE SUMMARY

Paragraph

## Introduction

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

Figure 1: Roadmap of the Review



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

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

### **Priority Areas**

4. We would like to suggest that –

*In the short term:*

9.14

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

*In the medium term:*

9.15

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

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

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

*In the long term:*

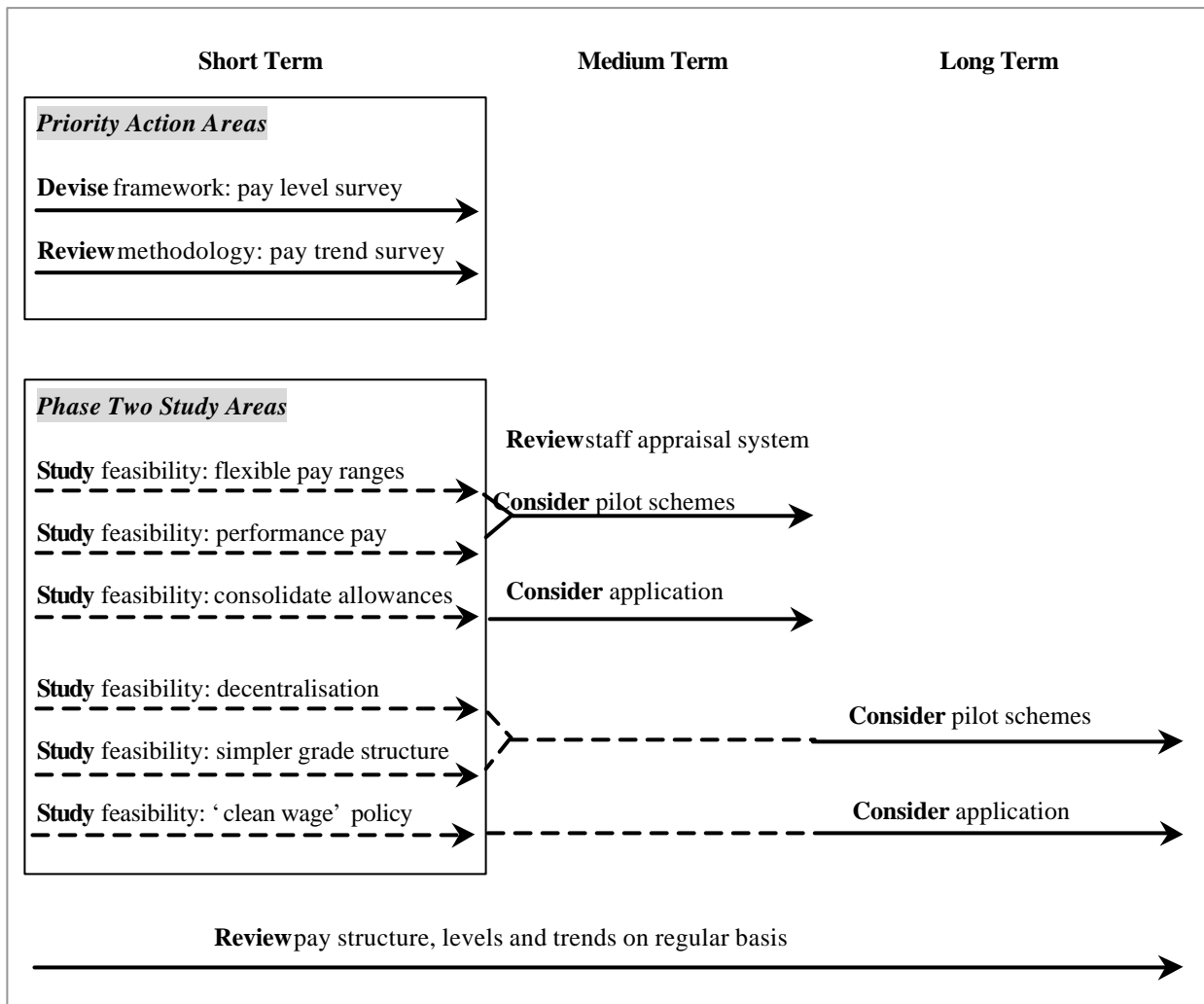
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- decentralisation of pay administration, as part of the devolution of human resource management, should be adopted as a target, after detailed studies are conducted to determine the scope of implementation at different stages, and to see whether the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

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

*(See Figure 2 and paragraph 17)*

Figure 2: Priority Areas in Pay Administration



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

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**Background**

6. On 25 April 2002, we published for public consultation: 1.6

- our Phase One Interim Report, and

- findings of a consultancy study on the latest developments in civil service administration in the five selected countries.

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

## **Review of Development in Hong Kong**

### *The Need for Review*

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

### *Changes Cannot be Rushed*

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

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

### *Historical Context and Changing Times*

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

**Our Vision**

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

## Specific Areas

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

### *Pay Policies, Pay System and Pay Structure*

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



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

### *Replacing Fixed Pay Scales with Pay Ranges*

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

#### *Pay Adjustment System and Mechanism*

- |   |                |
|---|----------------|
| - Criticism of the existing annual pay <i>trend</i> survey does not address the fundamental problem of perceived pay disparity between the civil service and the private sector. The problem lies in the absence of a pay <i>level</i> comparison, which should be the foundation of the pay determination mechanism. | 6.17 –<br>6.18 |
| - A practical framework and methodology of regular pay <i>level</i> surveys should, therefore, be established and applied as soon as possible.  | 6.21           |
| - In the meantime, there are also a number of issues which should be addressed in respect of the complementary pay <i>trend</i> survey as it is currently conducted. These issues include:  | 6.22 –<br>6.29 |
| <ul style="list-style-type: none"> <li>• survey sample – size and economic distribution;</li> </ul>   |                |

- effects of company downsizing or restructuring; and
  - other technical matters such as increment cost deduction, etc.
- A closer look should also be taken in Phase Two as regards whether the growing overseas trend of moving away from formula-based approaches in pay determination has any useful application to Hong Kong. 6.31

### *Introducing Performance-based Rewards*

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

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

### *Simplification and Decentralisation of Pay Administration*

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

- consider obtaining stakeholders’ ‘buy-in’ as regards decentralisation of pay administration; and
  - consider providing support to management through training, injection of resources, outside expert assistance, etc.
- Simplification of grade structure should also be examined in Phase Two. However, the issue should be treated carefully and the following should be examined closely: 8.32 – 8.33
- scope for simplification;
  - effects on productivity and staff morale;
  - feasibility of implementing delayering together with pay ranges and performance pay;
  - benefits of departmentalising common and general grades against maintaining flexibility in staff deployment; and
  - need for regular job evaluation.
- Senior civil servants at the directorate level should continue to be managed centrally for pay purposes. 8.34
- Further consideration should be given, in the light of the operational needs of the disciplined services, as regards whether there are benefits in decentralising pay administration for this group of departments. 8.35

## Conclusion

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

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