



香港僱主聯合會  
Employers'  
Federation  
of Hong Kong

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Joint Secretariat for the Advisories Bodies  
On Civil Service and Judicial Salaries and Condition of Service  
Room 701, 7<sup>th</sup> Floor  
Tower Two, Lippo Centre  
89 Queensway, Hong Kong

Dear Sirs,

Review of Civil Service Pay Policy and System

I attach our views on the Review of Civil Service Pay Policy and System and in particular the questions asked as a result of the Consultants' report.

The Employers' Federation supports the efforts the Government is making to bring the Civil Service pay system into the 21<sup>st</sup> century. The Consultants' report on comparative practices in other countries is comprehensive, clear and useful. It is an excellent first step towards what is an essential - and will be a long - process of review and reform.

For the sake of brevity and relevance, we have chosen to confine our comments to our views on the 15 questions posed by the Task Force. In summary, our key points are:

- there *should* be a major overhaul of remuneration and the associated systems in the Civil Service to align them more closely to the private sector's and make them more flexible;
- as a result of this overhaul, there *may* well be a case for different treatment for the Disciplined Services. In any case different sections of the Civil Service should have pay levels and systems relevant to the market;
- broad comparability with the private sector *should* remain the base principle behind Civil Service Pay with a clear, transparent formula and regular benchmarking;
- introducing performance related pay *must* be a key target for the Administration - though team-based awards are probably too difficult to implement at this stage;
- decentralization of remuneration policy and practice is a *critical* step for the future.

The above and several other important points are made more fully in our attached submission.

We are grateful for the chance to express our views and look forward to continuing dialogue with the Administration on this matter in future.

Yours faithfully,

Encl.

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### Questions posed by the Task Force

1. *Should there be a major overhaul of the civil service pay policy and system, putting more emphasis on performance-pay, clean wage policy (i.e. paying "all cash" wages in lieu of allowances, housing and medical benefits, etc.), etc., and building in more flexibility for adjustment?*

Yes, there should be a major overhaul of all these and other items related to remuneration in the Civil Service. It is important that the Civil Service aligns its pay practices closer to those in the private sector. There may be a case on economic grounds to retain some allowances and the Administration need not be doctrinaire at this stage about the details.

We recognise that a full review is a huge task and should not be rushed. We agree with the comments on page 3 item 12 of the Consultation Paper which says *'The Task Force noted in particular the consultant's observation that pay and grading reform cannot and should not be implemented in isolation from the broader civil service reform agenda.'* The Administration must adopt a long term view; gaining buy-in and commitment to change from key stakeholders is critical.

2. *Should senior civil servants be subject to a pay policy which is different from that of the middle-ranking and junior ranks, placing more risk/award factors on the former?*

Yes. Although there should be risk/reward pay in all civil service levels, it is appropriate to have more at-risk pay at the senior levels, as in the private sector. However, it is appreciated that this is a very difficult area of Management and hence we recommend that this be a matter of further detailed study regarding most effective methodologies both in private and public sector. As a generality, it should be implemented top down rather than bottom up and should not be implemented until and unless a trusted performance measurement system is in place that honestly differentiates performance.

3. *Should the disciplined services' pay be treated differently from the rest of the civil service?*

There is a case for different treatment for the Disciplined Services. Police pay, for example, is a tricky issue. The Police are the Force of last resort and there are special reasons for treating pay and conditions separately from the rest of the Civil Service and possibly from other disciplined forces in Hong Kong.

Whilst we support the case for treating police differently, some of the excising disciplined forces are not so deserving of separate treatment. Accordingly we recommend that a careful review be made to determine whether there are sufficient grounds for retaining this special category for all the current members of the disciplined forces (e.g. Hawker Control, Government Flying Service).

Although performance management is critical, we are doubtful if incentives or performance pay in themselves are relevant in many of the Disciplined Services. However the principles of comparison with the private sector (at least for more senior ranks where there are managerial comparisons in the Private Sector) and some similarity with the practices should apply. Different sectors of the Civil Service should have different pay practices. (See q.11 below)

4. *Should we adhere to the principle of broad comparability with the private sector and continue to conduct regular pay level, pay structure and pay trend surveys to ensure that civil service pay remains competitive?*

Yes, but only for the next few years whilst and subject to immediate changes being made to the method of calculating the deduction for incremental increases. Comparisons should be made department by department across broad professions or industry types rather than covering the Civil Service as a whole unit. Both the survey methodology and the formulae for translating the results into pay reviews in the Civil Service should be widely debated and understood and be made to be fair and correct to all parties.

A timetable should be set in a few years to effect more radical changes to the methodology in the light of overseas experience thereby allowing time for very careful review of alternative methodologies.

The Administration should carry out pay level surveys every two years instead of a gap of several years, which is the current practice. Benchmarking should be regular and frequent, not casual.

5. *Or should Government's affordability to pay be an over-riding consideration in pay adjustments?*

Affordability should be one of the factors but not the over riding factor. It should be relative to allocation of all resources in the Civil Service. Ability to pay is high on the list of critical factors considered in the Private Sector but so also is attraction and retention of staff. Pay review decisions should take a balanced view of the labour market as well as the ability to pay.

The key issue is that of year to year budget balancing which means that pay decisions must be based upon current year's economic forces and not be confused by pay data from the previous year. If this were done then in combination with balancing budgets, the Government could set pay plans based on the prevailing economic factors rather than historic ones and the CS could play its part in influencing restraint on Pay when the need exists rather than blindly following others.

It would not be in Hong Kong's long-term interest for the pay of Civil Service departments to fall substantially behind that of the pay in the portions of the Private Sector to which they compare themselves.

6. *Should flexible pay ranges be introduced into the Hong Kong civil service to replace fixed pay scales? If so, should they apply only to senior civil servants or the entire service, including both the civilian grades and the disciplined services?*

We understand that in theory the existing increment system is not automatic and must be earned - though in practice it has been effectively automatic. We strongly oppose such semi-automatic increases. They add costs without any regard to the economic situation or the issue of affordability. All pay scales, if they are to work at all, must have minima and maxima. It is the way in which employees move within the scales that is important. As a matter of urgency, fixed increments should be abolished and replaced by a more flexible system of in-

scale increases, ideally based on performance, but in amounts that can vary year-by-year according to prevailing economic forces and the Government's need to balance its budget.

There may be a case for more rigidity at the lowest levels and possibly for the disciplined staff of some of the disciplined forces. From the master pay scale up at the least, they should be flexibly applied. It is important for everyone to recognise that remuneration can be flexible at all times and in all ways - that is up, static, or down.

Consideration should be given to reducing the number of grades, thus widening the pay range for a fewer number of grades. This would enhance flexibility both departmentally and across the whole structure. This will provide a greater incentive for good performers and simplify benefits administration.

**7. *Is the existing pay adjustment system still regarded as fair by both civil servants and the public which they serve? Would another mechanism serve this purpose just as well, or better?***

In most cases pay in the Civil Service demonstrably greatly exceeds that in the Private Sector where there are valid job comparisons. The system must change.

The principle of broad comparability with the Private Sector is sound. It needs far more flexible application and a proper formula to make it work. The reviews need to be undertaken on a department rather than Civil Service wide basis. It is this that needs the most work.

The Government now states that Civil Service pay follows the Private Sector, but in reality it leads, both in terms of influence and in amount.

**8. *Is there merit for elements of performance pay to be incorporated into civil service salaries?***

Yes, this is a universal trend in all pay systems and in all countries and professions, and the Hong Kong Civil Service should follow suit.

**9. *Should team-based performance rewards be used and, if so, to which group (senior, middle, lower or all levels) should they apply and on what basis?***

For the Civil Service this would be a case of trying to run before they learn to walk. Team-based performance rewards are difficult to implement even in organizations used to performance pay. We recommend deferring this for a number of years for the majority of the Civil Service.

The prospect for success is probably greatest where efficiency improvements can realistically be objectively quantified. The Trading Funds are well placed to adopt such systems and if the concept of Trading Funds or autonomous units with measurable outputs were expanded then team based rewards would help to establish and bed down a performance based culture. Accordingly, the pilot scheme that is currently being developed and tested might be applied successfully to the Trading Funds and it is recommended that this initiative be continued in these departments on a trial basis.

**10. *Should individual performance rewards be introduced and, if so, to which group (senior, middle, lower or all levels) should they apply and on what basis?***

Yes. However, we cannot comment on how this may be done in an Administration of over 180,000 people in a vast range of trades and professions. It can and must be done - though we accept that implementation will be complex. However, an absolute precursor to its introduction is to ensure you have a fair and trusted system of performance measurement.

**11. *Should consideration be given to introducing decentralisation of civil service pay administration for a city like Hong Kong?***

Yes, it is important that we move away from the current monolithic approach to Civil Service pay in which virtually every one of 180,000 staff of widely different skills functions and disciplines gets the same pay review. It is possible to introduce modern and relevant practices, department by department. This will make the transformation process possible.

However Civil Service pay cannot be completely decentralized. The Civil Service needs to be transparent whereas in the private sector, pay tends to be individual and confidential. However, the principle of decentralisation is not inconsistent with the principle of transparency.

The Trading Funds would make an excellent starting point by giving them more autonomy on determining their annual pay adjustments and then by giving them more autonomy in other areas of HR policies but working to central guidelines. The pay differences between Trading Funds could be based on measurable performance results and differences in labour market forces.

**12. *Should some or all of the current general/common grades staff be departmentalised to facilitate department-based management?***

This is a structure, rather than a pay, issue. The current 'generalist' approach needs revision and departmentalising staff would be beneficial.

In attaching staff to departments, the Administration must ensure that this reduces staff numbers, rather than increasing them as each department duplicates administrative staff. Shared Services teams could be instituted as they are becoming common in multi-location firms in the Private Sector.

**13. *If civil service pay administration is to be decentralized, there may be a rather long transition period. How can the standard of service and staff morale be maintained during that period?***

There need not be a long transition. There is precedent in 'privatisations' that have taken place. Once the broad principle is promulgated, departments will take their own measures to implement them and, given some overall co-ordination from the centre, this could work well.

The change to pay structures and processes needs to be well co-ordinated and designed to offer something to everyone - and especially to show staff that they have much to gain by the new systems. It would be wrong (though perhaps understandable) for Civil Servants or the Administration to take the view that the Private Sector simply wants to cut Civil Service pay

and benefits. Hong Kong remains best served by a well-paid, well-motivated Administration with remuneration that is flexible, modern and fair.

*14. In terms of simplification, is there scope to amalgamate existing grades within broader occupational categories? Is there scope for having flatter organizations with wider span of management control and fewer rank layers?*

This is worth doing on a department by department basis and should form one of the principles of the future Civil Service. The size of the Civil Service can be streamlined significantly. De-layering can help to save some costs and make management and accountability more direct and effective.

Broad banding of Pay Ranges can be introduced carefully to make the Civil Service more capable of changing its structure more rapidly in response to community requirement.

*15. Should a formal job evaluation system be introduced and if so, should this be operated centrally or at department level?*

Yes, at the department level. This is a cornerstone of good employer/employee relationships.

The current intention to activate the dormant legislation on Equal Pay for work of equal value (EPEV) is very likely to make some gender neutral method of job evaluation essential in the Public sector. It is understood that this is something that is about to appear on the HK scene quite soon. It is already embedded in Sex Discrimination Ordinance and a report to be published soon on the subject will change the situation possibly quite radically. This is likely to make it essential that the Government amends its method of pay determination currently based almost exclusively on academic qualifications, to one that takes account of many more factors that are demonstrably gender neutral. The current system is certainly simple and well accepted but it takes too narrow a view of the ingredients that add to the value of the job.