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 Subject: Review of Civil Service Pay Policy and System

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25th June 2002

(By e-mail and by post)

Joint Secretariat for the Advisory Bodies on
 Civil Service and Judicial Salaries and Conditions of Service
 Room 701, 7th Floor
 Tower Two
 Lippo Centre
 89 Queensway
 Hong Kong

Dear Sirs,

Review of Civil Service Pay Policy and System

The Hong Kong Democratic Foundation is pleased to present its views on the issue of Civil Service pay in response to the consultation document.

Paragraph 3.23. Chapter 3 Findings & Observations

We believe it is appropriate that a thorough review of Civil Service pay is carried out at this time. As pointed out in the Consultants' report, a number of countries have undertaken reforms of their Civil Service pay systems, so there is a wealth of both information and practical experience to guide any review of this issue.

To the extent that it is both practicable and fair, the system of remunerating the Civil Service should be brought into line with that generally practiced by the private sector. One important reason would be to facilitate the transfer of personnel between the Civil Service and private sector. We would strongly support efforts to build a culture of job interchangeability between the Civil Service and the private sector. We feel that in many areas there would be material benefits to the community through eventual performance enhancements if Civil Servants were to gain experience in the private sector, as part of their career development and personnel from the private sector were to contribute their expertise to the work of the Civil Service through periods of employment in the Civil Service.

We are in favour of performance being used as a factor in determining pay advancement for members of the Civil Service, though we would caution that great care needs to be taken to ensure performance evaluations can be objective and fair. Moving towards paying "all cash" wages would be a positive development, but in the light of Hong Kong's volatile property market, it

would be prudent to give very thorough consideration as to the impact of encashing housing benefits and how this issue might need to be addressed over the long term.

It may be possible to adopt some different policies, perhaps in respect to performance related pay, in respect of more senior members of the Civil Service and we would support a thorough examination of this issue.

Since the nature of the work of the disciplined services is different from much of the rest of the Civil Service, there may well be benefits in taking a different approach on some issues and it might be possible to implement of more equitable system. Again, we would recommend detailed study be carried out on this issue.

The current system of regular pay level, pay structure and pay trend surveys should be maintained as tools in the evaluation of Civil Service pay. However, it is important that these assessments are carried out very objectively. An additional criteria to be considered should also be the affordability to the community of any pay award, as it should be remembered that it is the community that is the ultimate paymaster of the Civil Service. A situation certainly seems to have developed in which the community currently perceives economic conditions have treated the private sector less favourably than the Civil Service from the point of view of pay.

Paragraph 3.30 Replacing fixed Pay Scales with Pay Ranges

It is desirable to link pay increases as far as possible to performance and therefore the introduction of pay ranges with progression based on performance should be examined. However, it would be wise to seek to introduce this gradually, starting with the higher levels of the Civil Service and with functions where performance achievements can be readily quantified. As experience with such a system is built up it may be feasible to expand it down the line, but there may well be functions, where it is simply not practical to introduce such a system.

We cannot see why performance related pay should cause divisiveness among civil servants to any greater extent than in the private sector.

The disciplined services should not be excluded from possible participation in performance related pay, where this would be appropriate.

The present performance measurement and appraisal system should be reviewed to see if it would continue to be relevant to any new performance related pay programmes that might be introduced.

Paragraph 3.36 The Pay Adjustment System and Mechanism

There are many Civil Service jobs which can be compared with private sector equivalents, particularly in the lower grades, such as drivers, clerks, secretaries, accountants, etc. and for these there should be broad private sector comparability. Also, we would draw your attention to our view that entry level salaries for university graduates coming into the civil service as Administrative Officers are materially above those paid to fresh graduates by the private sector and this is an issue which needs addressing. However, there are also Civil Service functions that do not have private sector equivalents and this needs to be recognized in establishing pay policy.

In terms of pay levels, we believe more consideration needs to be taken into account of the undoubted benefits of the life-time inflation-adjusted pension system and the culture of job security, which puts the civil service at a distinct financial advantage to the private sector.

No doubt there could be improvements in the methodology in the existing pay adjustment system, but in broad principle it is reasonable, with the exception that there seems to be the expectation among civil servants that adjustments can only be upwards. This is indeed contrary to the reality of the private sector. Therefore, unless the principle of pay reductions as well as pay increases is accepted, it will be difficult to achieve even broad comparability with the private sector and in our view this would not be acceptable to the community.

Fiscal constraints should be a factor in determining pay adjustments, just as they are in the private sector, but they should not be the over-riding factor.

On balance, while decentralisation of pay administration may be a suitable policy, we do not feel it is appropriate to consider this at the present time and that it would be better to successfully achieve other pay policy reforms before addressing this issue.

Paragraph 3.44 Introducing Performance-based Rewards

It is our view that it would be beneficial to operate a performance based pay system for the Civil Service wherever this can be practicably incorporated, though we recognize there would be limitations to the extent to which this could be achieved. As stated previously, this should be introduced carefully and gradually.

For some functions the appropriate system would be team-based and for some functions the appropriate system would be individual-based.

As stated previously, performance-based rewards should probably be introduced first in the senior management levels of the Civil Service and moved downwards in the light of experience, where it would appear to be appropriate.

Paragraph 3.51 Simplification and Decentralisation of Pay Administration

As stated previously, we believe it would be prudent to leave the issue of decentralisation of pay administration to a later time, after other pay policy reforms have been successfully introduced.

We believe there should be scope to substantially simplify the grading system to achieve a flatter organizational structure with fewer rank layers.

There is no doubt, as far as we are concerned, that the implementation of a formal job evaluation system would considerably assist the creation of a culture of promotion and pay increments based on merit. However, great care needs to be taken than the performance evaluation criteria are thoroughly objective and there may well need to be some appeal mechanism for employees who believe they have not been objectively evaluated.

Yours faithfully,
Hong Kong Democratic Foundation