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Joint Secretariat for the Advisory Bodies on Civil Service
and Judicial Salaries and Conditions of Service
Room 701, 7th Floor
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89 Queensway
HONG KONG

Dear Sirs,

Task Force on Review of Civil Service Pay Policy and System
Consultation Paper Phase I Study
Interim Report Phase I Study

The Hong Kong General Chamber of Commerce welcomes the opportunity to comment on the reports prepared by the Task Force formed by the three Government Advisory bodies on Civil service pay and conditions of service and the Consultant's Report commissioned by the Task Force. The issues of the Civil Service Pay Structure and Reform are of vital interest to the Chamber and, indeed, the Hong Kong private sector as a whole, as the two are directly linked through the annual private sector Pay Review exercise conducted by the Administration.

As you may know, the Chamber has long maintained an interest in all matters related to the Civil Service, with the annual pay review and pay levels within the service being just two elements in this. We are also concerned about the overall size of the Government's headcount and the cost burden this puts on our taxation system. Our view is that size often brings inefficiencies, a weakened alignment of purpose and communication and additional pressure on the community's finite financial resources. We believe the Government must do all it can to restrict Civil Service growth and work towards employing significantly fewer people than it does today. Although such matters are somewhat outside the ambit of your own considerations, we believe they are worth reinforcing here.

In relation to the Task Force's own consultation papers, our three main concerns in descending order of immediate importance are the need for:

- (a) An immediate re-assessment of the private sector pay review mechanism and the manner in which it is applied to determine civil service wage and salary increases (or decreases, as in the current year),

- (b) A review of the pay disparities we believe have emerged between jobs of a similar nature and standing in the civil service when compared with the private sector of the economy, and
- (c) Broader reform within the civil service over the medium-to-longer term and a reduction in overall Civil Service numbers.

(a) Pay Review Mechanism

The Chamber, along with other employer bodies, has long been concerned that the annual mechanism for Civil Service pay review and adjustment has not accurately reflected trends in private sector and that Civil Service pay and benefits have, as a result, moved ahead of those in the private sector. We believe a re-assessment of the pay review system and the mechanism by which it is applied is long overdue. A major overhaul of the existing system should be undertaken with a view to aligning it more with what is occurring in the private sector. Government pay practices and levels should not lead the market, rather they should follow it. Furthermore, we believe true performance-related pay must be the target for the Administration. This is the reality of today's market place and is required if we are to extract greater value from the Government's overall spending on services. This, in turn, will require a more decentralized approach to determining pay.

(b) Pay Level Comparison

As a result of our monitoring wage rises, we have in recent years become concerned not merely with the annual pay review, but also with the widening disparity in levels of pay and benefits between the private and public sectors, in favor of the public sector. To some extent, this has been addressed in the new entry-level salaries for those being recruited to the public sector, but the disparities remain for many existing members of the Civil Service compared with their private sector counterparts. Both privately conducted surveys and anecdotal evidence from the private sector, we believe support this view. The Government should agree a clear, relevant and transparent formula, with regular benchmarking done with positions in the private sector to ensure broad comparability. In this context, we noted with interest the results of the recent Government-commissioned Hay Group survey on the remuneration of senior executives of statutory bodies and other bodies. Such a benchmarking exercise should be applied across the Civil Service on a regular basis.

(c) Civil Service Reform

More recently, the Chamber has become very active in supporting and advocating wider Civil Service reform, in all its aspects, structural and operational. We see the reports by both the Task Force members and the consultants to the Task Force as the first step along the way in this overall task of comprehensive reform. In this context, we have noted, in particular, paragraphs 12 and 13 of the Consultation Paper prepared by the Task Force and the relevant comments in the consultant's report, viz:

Paragraph 12: 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. A long-term view needs to be taken and gaining buy-in and commitment to change from key stakeholders is critical.

Paragraph 13: Similarly, it was also noted that a major investment of resources is necessary to build the capacity and commitment required to implement major pay reforms. Making significant changes to pay and grading arrangements, within the context of wider reform, inevitably involves pain as well as gain.

Making a Start

Whilst we agree with the overall view that pay and grading reform should go hand-in-hand with broader Civil Service reform, we certainly believe it is possible to make a start on the former before moving on the latter. We certainly believe that a start to pay and grading reform for the whole Civil Service is urgent and imperative, with particular attention being paid to the Civil Service pay review mechanism and the disparities in pay levels now evident between similar jobs available within the public and private sectors.

In this context, we were disappointed that the Task Force decided in its own Consultation Paper to only state that it maintains "an open mind" on its own Consultant's findings, especially given the evidence of reform undertaken in similar jurisdictions contained in the Consultant's Report. Instead, we believe the Task Force should have been more robust in advocating the need for reform and suggesting some options for immediate progress. As we have said, we believe examination of the pay review mechanism and pay levels within the Civil Service are urgent, especially given current economic circumstances and the Government's fiscal situation. Some suggestions from the Task Force on future action might have speeded up this process.

Having said that, however, we believe both the publication of the Task Force's own Consultation Paper and the extensive Consultant's Report mark a worthwhile step forward in the process of reform and we certainly would not want to see hasty decisions taken now that might be regretted later. At the same time, we do believe that a further reform initiative is needed urgently and we take heart from paragraphs 16 and 17 of the Consultation Paper in which the Task Force says:

Paragraph 16: However, having seen the development in the five countries studied, there seems to be a case that while the present pay system, among other things, has provided Hong Kong with a stable, clean and efficient civil service, some serious thinking is needed to ensure that the pay system is appropriate under the current socio-economic circumstances in Hong Kong. It has to be a system that can meet changing expectations from all quarters as well as challenges in the future.

Paragraph 17: From what the Task Force could perceive, the community would like to see a thorough re-thinking of the basic principles of the existing pay system. Piecemeal review on specific areas may no longer suffice.

The Way Ahead

We agree entirely with these views and believe a start should be made on this process as soon as possible. Our general view is that the report of the Consultants to the Task Force shows that considerable reform has been undertaken in the five other

jurisdictions studied and this reform process points the general direction in which the Hong Kong SAR should be headed.

To assist in this process and hopefully see some early work done on reform of the pay review and grading system, we set out below, in some detail, our views on the questions put in the Task Force's Consultation Paper for Phase One of this project. We look forward to making further input as the reform process continues.

Yours sincerely,

[REDACTED]

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Answers from the Hong Kong General Chamber of Commerce to the questions posed by the Task Force in its Consultation Paper.

- 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?*

As you would have noted in our covering letter to this document, we agree there should be a total overhaul of the civil service pay policy and system. Civil service pay practices must be more closely aligned with the private sector, pay amounts for similar jobs must be comparable to the private sector and pay reform must be part of the wider reform task within the civil service. We are strong advocates of performance-related pay and note that the SAR's private sector has been moving in this direction for years. We also support greater flexibility in pay practices. There is a general case for all cash benefits, although there may be some instances where other benefits and allowances need to be retained for particular purposes. The Government may need to have some flexibility in this area. As we also noted in our covering letter, we believe the overhaul of the system is urgent, but that it is just as important to get it right as it is to do it quickly. There may, therefore, need to be a progressive approach to change connected to overall civil service reform.

- 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. Once again we believe the practice widely used in the private sector should be adopted as far as possible within the civil service, with more senior levels having more "at risk" pay than junior levels. As a general rule, there should be some "at risk" or "risk/reward" element adopted at all levels within the service. However, there may need to be further study done to see how this can be achieved at a practical level, particularly in the measurement and assessment of performance.

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

Yes, although there may need to be some greater flexibility in defining what are key disciplined services. For example, it is fairly clear that the Policy Force is a special case, but there may need to be limits imposed on what other activities are regarded as disciplined services. Application of performance pay might be difficult, although broad comparability with the private sector remain the key objective.

- 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. We believe it is vital that broad comparability with the private sector is necessary. This is why we have become concerned in recent years about the outcome of the pay review survey and the disparities that have arisen as a result of its application over the years. It is for this reason we have recommended in our covering

letter a complete re-assessment of the pay review system and assessment of pay levels between similar jobs in the public and private sectors. This should preferably be done on a departmental basis. We agree that regular level, structure and trend surveys should be conducted to ensure comparability between the public and private sectors over time. Moreover, these surveys should be more often, rather than less, to take account of changed conditions in the local economy and employment conditions.

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

The affordability of pay rises to the Government should be only one factor taken into account in their determination. It may, however, be a more important consideration at times of difficult Budget conditions, reduced revenues and Budget deficits. Civil service salaries cannot be set totally in isolation from the Government's overall fiscal situation. That said, the condition of broad comparability with the private sector remains paramount, especially in taking into account the ability to be able to attract and retain appropriately qualified staff.

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?*

Yes, we generally agree with this view and that flexible pay ranges should apply across the entire civil service, with the ability to move wages both up and down, based on performance and between departments. We believe fixed increments should be abolished and are concerned that the current increment system is applied virtually automatically to those who civil servants who qualify. With more flexible pay ranges, there should also be fewer grades within the civil service.

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?*

We do not have special insights into the views of the civil service on the present system, but we are sure it is not viewed as satisfactory by the private sector and the public at large. There must also therefore be doubts about whether it is acceptable to the civil service. We urge a complete and thorough re-assessment of the system.

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

Yes, as we have pointed out elsewhere, we believe this is the way forward, in line with practice in the private sector and in the public sector elsewhere (as is evident in the Consultant's report to the Task Force).

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?*

Ultimately perhaps, but it is not a priority due to difficulty of implementation.

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. As we have said elsewhere, we believe it should be applied over all levels, but with emphasis on the higher levels, at least to begin with.

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

Yes, greater responsibility should be moved to departments, although there will necessarily be some practices at some levels that need to be centralised. It may be necessary to introduce such changes gradually, department-by-department.

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

Yes, we believe this will be necessary to facilitate other changes in terms of departmental responsibility, pay for performance and the reduction of the numbers of grades within the civil service. However, care will need to be taken to ensure that duplication between departments is minimised.

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 will need to be openness, transparency and good management of the changes, accompanied by good communication with staff. We doubt, however, that there needs to be a long transition period, rather good planning and timely implementation.

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?

Yes, we believe this is the case and the evidence in the consultant's report to the task Force appears to indicate that it is so elsewhere. We believe the civil service can be decentralised, streamlined and de-layered on a departmental basis.

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

Definitely, this is increasingly the norm in the private sector and is being adopted in the public sector in other jurisdictions.

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