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28 June 2002

Mr LEE Lap-sun
Secretary General
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 Mr Lee,

Review of Civil Service Pay Policy and System

I refer to the letter dated 25 April 2002 from the Chairman of the Task Force on Review of Civil Service Pay Policy and System inviting views on the consultation paper of the Phase I Study. The views of the departmental management are as follows:

Pay Policies, Pay System and Pay Structure (paragraph 19 of the Consultation Paper)

Question (a)

We support a critical review of the civil service pay policy and system. We agree that more emphasis should be put on performance-pay, and that a clean wage policy (i.e. paying "all cash" wages in lieu of allowances and fringe benefits) should be implemented.

Question (b)

Given the complexity, accountability and political sensitivity inherent in their jobs, we consider that the pay policy for senior civil servants should be different from that for the middle and junior ranks, with more emphasis on risk/award factors.

Question (c)

We have no comments on whether or not the pay of the disciplined services should be treated differently from the rest of the civil service.

Question (d)

As competitive remunerations should be offered to attract, retain and motivate staff in the civil service, we consider that the Government should continue to conduct regular pay level, pay structure and pay trend surveys to ensure that civil service pay remains broadly comparable with that of the private sector.

Question (e)

We consider that, in the long run, Government's affordability to pay should be an over-riding consideration in pay adjustments. However, for short-term fiscal constraints, other factors may need to be considered. The loss of experienced and quality staff who leave the civil service because of, say, a pay cut which is perceived to be unfair, may not be replaced easily.

Replacing fixed pay scales with pay ranges
(paragraph 20 of the Consultation Paper)

Question (a)

In our view, introducing flexible pay ranges may provide a fairer system of reward based on merit and encourage a performance-oriented culture. However, this must be accompanied by a vigorous approach to performance measurement and management. Without an impartial and honest appraisal reporting concept inculcated in the various levels of management, it will be difficult to distinguish the good performers from the mediocre and the poor performers. This would undermine the reliability of the new system and attract accusations of inequity.

Question (b)

We consider that the introduction of flexibility in pay progression, if not handled carefully, may lead to potential divisiveness among civil servants.

Question (c)

We consider that a step-by-step approach should be taken and that, initially, flexible pay ranges should be applied only to senior civil servants. Depending on the results of the implementation, the Government should then decide whether or not to apply flexible pay ranges to the entire civil service.

Question (d)

To encourage a performance-oriented culture throughout the civil service, flexible pay ranges should apply to both civilian grades and the disciplined services.

Question (e)

To ensure the success of the new pay and reward system, the existing performance measurement and appraisal systems should be enhanced to support the introduction of flexible pay ranges. For example, there is a need to draw up clear criteria/parameters for granting additional increments/payments to the better performers.

Question (f)

A performance management system linked to pay can help nurture a performance culture. Other factors (e.g. job satisfaction and team spirit) are equally important.

The pay adjustment system and mechanism
(paragraph 21 of the Consultation Paper)

Question (a)

We consider that the principle of broad comparability with the private sector should continue to be adhered to. Otherwise, the Government may not be able to attract, retain and motivate staff in the civil service.

Question (b)

The existing pay adjustment system has attracted criticisms from members of the public. We welcome the introduction of a new mechanism which can better serve the purpose.

Question (c)

In the absence of any concrete proposals, we can only say that we welcome the introduction of any additional flexibility if it will help attract, retain and motivate staff of the right calibre.

Question (d)

See my response to Question (e) under the heading "Pay Policies, Pay System and Pay Structure" above.

Question (e)

The Government should develop, centrally, the overall framework and pay policies based on which individual departments can determine their specific pay arrangements. This would ensure a consistent approach to pay administration throughout the civil service. Furthermore, the sizes of government departments differ greatly, ranging from less than a hundred staff to over 30,000. The resources that can be devoted to the pay administration function also differ. Some very small departments may not even have a proper and dedicated personnel unit and it will be difficult for them to deal with all pay matters on their own. Therefore, we consider that decentralization of pay administration, if implemented, should be offered as an option, particularly for those small departments which lack the resources to implement it.

Introducing performance-based rewards
(paragraph 22 of the Consultation Paper)

Question (a)

We consider that there is merit for Hong Kong to incorporate elements of performance pay in civil service salaries to better motivate staff and increase productivity.

Question (b)

Apart from introducing flexible pay ranges, the performance-based reward may be given in the form of one-off payments as recognition for a year's contribution and meritorious performance. The amount of rewards to be granted should be large enough to be meaningful and attractive.

Question (c)

In response to Question (c) under the heading "Replacing Fixed Pay Scales with Pay Range" above, we have expressed the view that a step-by-step approach should be taken and that, initially, flexible pay ranges should be applied only to senior civil servants. We consider that a step-by-step approach should also be taken for performance-based rewards, and that team-based performance rewards should be considered after the successful implementation of performance-based rewards for senior civil servants.

Question (d)

We consider that individual performance rewards should be introduced initially to senior civil servants (see also our response to Question (c) above).

Question (e)

To support the introduction of performance-related pay, the extent of additional rewards/payments should be closely monitored and determined by the senior management to ensure fairness of treatment among all officers within the same grade/rank in the department. Before the start of the appraisal cycle, the appraisees should be fully apprised of the criteria/parameters by which additional rewards/payments are to be made.

Simplification and decentralisation of pay administration
(paragraph 23 of the Consultation Paper)

Question (a)

We support generally the idea of decentralisation. See also our response to Question (e) under the heading "Pay Adjustment System and Mechanism" above.

Question (b)

For equity and consistency in pay arrangements throughout the civil service, we consider that, upon decentralisation, the pay administration of the entire civil service should still operate within a centrally determined pay policy framework. A point of reference is the existing arrangements for the recruitment of non-civil service contract staff.

Question (c)

We agree that some of the current general/common grades staff can be "departmentalised" to facilitate department-based management.

Question (d)

To help maintain the standard of service and staff morale during the transition period, we consider that the management should duly inform the staff of the developments regularly, consult the staff in the process of formulating the changes and provide necessary training to the personnel who need to deal with pay administration in departments. The Civil Service Bureau should provide departments with advice and guidance to help them undertake the required functions and build up the necessary experience and expertise.

Question (e)

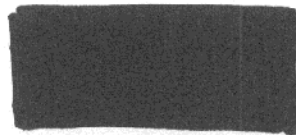
We believe that there is scope for the amalgamation of some existing departmental grades within broader occupational categories. We also believe that


there is scope for having flatter organisations with wider span of management control and fewer ranking layers. However, these are highly complex issues which should be pursued in a pragmatic manner. Thorough research and comprehensive consultations should be made before making definitive recommendations. The implications on staff morale, operational efficiency, and corporate spirit should be carefully examined.

Question (f)

We generally support the introduction of a formal job evaluation system. Such a system, if introduced, should be operated centrally because not every department has the resources and expertise to deal with the highly complex tasks of job evaluation.

Yours sincerely

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for Director of Audit